7 Period 1990-1999 – the single-track reporting approach maintained, despite growing criticism

7.1 Introduction
In the years 1990-1999, a large number of developments occurred regarding the companies reviewed in this dissertation and their financial and prudential reporting environments.

Firstly, the companies continued to expand, domestically and internationally. And this occurred not just in respect of their traditional insurance activities, but there was also the formation of two financial conglomerates, i.e. Fortis and ING, at a time when there were no specific financial or prudential reporting rules for such diversified groups. The diversification and international acquisitions created a need to improve the consolidated financial statements of the groups, but also resulted in several accounting changes (in particular regarding the life insurance business), which, in general, decreased the level of prudence in the financial statements as a whole.

Secondly, the European Commission completed its framework of accounting directives by issuing the insurance accounts directive, and its prudential reporting regime by the issuance of several banking and insurance directives. These directives were subsequently implemented in the Dutch legislation, in which process also the financial reporting challenges for financial conglomerates were addressed and, in contrast to the provisions of the third life insurance directive, a direct link was created between the financial and prudential reporting requirements for the life insurance provisions, maintaining a single-track reporting approach. Furthermore, the European Commission took the first steps to discuss the future European financial reporting environment in respect of a possible adoption of IAS, a development that is explained in detail in the next chapter.

Thirdly, the influence of the IASC on the international and Dutch reporting environment continued to increase. It issued a large number of pronouncements in the period, which were, generally with only limited deviations, subsequently incorporated in the guidelines of the RJ. This included the incorporation of the conceptual framework of the IASC, which defined investors as the primary users of financial statements. Additionally, to complement the Dutch legal framework, the RJ issued a draft guideline for the financial statements of banks and a final guideline for the annual accounts of insurance companies. In the latter, the RJ did not limit the number of options in the European accounting directives, which were taken over in the Dutch legislation. In contrast, it added a specific permissible accounting treatment for realised gains and losses on investments, which was immediately put into practice by AEGON and a number of other Dutch insurance companies; however, it was not applied by Fortis and ING, which increased the level of diversity of accounting policies for these gains and losses. Aligned with the Dutch legislation, the RJ recommended a single-track reporting approach for supervised insurers and their Dutch parent companies, an approach which was heavily criticised by, in particular, Oosenbrug.

Concerning the developments in the US and the UK, the trends observed in the previous period continued: the US FASB continued to publish new or revised accounting standards, which increased the gap between the financial and prudential reporting requirements.
On the other hand, in the UK a type 3 or type 4 single-track reporting approach was maintained, although near the end of the period a development started to expand the annual accounts of life insurers by providing additional information based on ‘realistic’ assumptions, and to decrease the level of prudence dictated by the prudential reporting requirements.

Overall, a Dutch single-track reporting approach was maintained, supported by the European directives, the revised Dutch legislation and the pronouncements of the RJ, supplemented by a gradual decrease of the level of prudence in both the financial statements and the prudential returns, and an increasing number of disclosures in the financial statements to accommodate the growing focus of standard setters on the information needs of investors. Stated differently, a single-track reporting approach of supervised insurers and of the holdings of Dutch insurance groups, based on the use of similar accounting principles was, complemented by an expansion of disclosures to serve the information needs of investors. In this respect, the developments in the period described in this chapter were similar to those applied in the past, which had also shown a practice of providing additional information (for instance, on the market value of investments) to assist the users of annual accounts in their assessment of the financial position and the financial performance of Dutch insurers. But this chapter does show that such additional information also started to deal with the level of prudence in the technical provisions, which had not been the case before.

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

Figure 7.1 Overview of the main Dutch and European developments in the period 1990-1999

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For an overview of the types of single-track reporting approaches, see table 2.1 in section 2.5.
7.2 General developments impacting the Dutch insurance industry

7.2.1 Introduction
This section shows that the Dutch society and economy continued to grow, as did the insurance industry, but that the social security system was gradually curtailed, following the trend that started in the previous period. In respect of the Dutch tax system for companies, the most important event for insurers was the mandatory reduction of the fiscal equalisation reserve, resulting in an increase of the effective current tax rate.

But this section also presents the rise and fall of the life insurer ‘Levensverzekering Maatschappij “Vie d’Or”’ (henceforth, the ‘Vie d’Or’), an event that triggered a number of debates on the adequacy of the existing financial and prudential reporting requirements for Dutch insurers (including the prevailing type 4 single-track reporting approach) and resulted in a number of initiatives and changes. These debates and changes are presented later in this and the next chapter.

7.2.2 Developments in the Dutch society and economy, the social security system and the tax system for companies
In the 1990s, the Dutch population increased from about 14.9 million to around 15.9 million. GNP per capita moved from around NLG 34,700 in 1990 to over NLG 58,000 ten years later, or annually by 6.1% on average. In real terms, the average annual growth was about 4.8%.

In the social security system, several interim steps were taken to develop a new national scheme for health insurance arrangements, by introducing changes to the 1986 act on the access to health insurance and the 1967 general exceptional medical expenses (compensation) act, both described in previous chapters. This occurred in 1991, in 1996, and in 1997. And in 1998 the government adopted the ‘Wet op de toegang tot ziektekostenverzekeringen 1998’, henceforth, the ‘act on the access to health insurance 1998’, which introduced some changes in the funding arrangements of the system. The restructuring of the Dutch health insurance system was finalised in 2005.

The 1990s also witnessed further changes to other social security acts, to decrease the volume and the expenses of the system. In 1993, an act was published to reduce the benefits under the 1966 disablement insurance act and the 1975 general disablement benefits act. In the same year, a similar act was published regarding decreasing sickness benefits. And at the end of 1995, the new ‘Algemene nabestaandenwet’, henceforth, the ‘general relatives act’, was adopted, arranging reduced benefits for the relatives of deceased Dutch inhabitants.

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2 See section 6.2.2.
3 See table A8.1.
4 See sections 6.2.2 and 5.2.3, respectively.
5 Minister van Justitie (1991b), Staatsblad 1991, nr. 587.
7 Minister van Justitie (1997c), Staatsblad 1997, nr. 777.
9 See section 8.2.2.
10 Minister van Justitie (1993d), Staatsblad 1993, nr. 412. The two existing acts are described in sections 5.2.3 and 6.2.2, respectively.
11 Minister van Justitie (1993h), Staatsblad 1993, nr. 750.
The general relatives act replaced the 1959 general widows and orphans act.\textsuperscript{13} A further step followed in 1996,\textsuperscript{14} when a major part of the 1929 sickness benefits act, described in a previous chapter,\textsuperscript{15} was privatised. This continued in 1997, when two new acts were introduced amending the disablement insurance act and repealing the general disablement benefits act.\textsuperscript{16} According to the Insurance Chamber, the changes in the social security system created new opportunities for insurers to offer compensating insurance products.\textsuperscript{17}

As in the earlier periods, there were no fundamental changes in the Dutch tax system. However, as was already announced in 1988,\textsuperscript{18} an important amendment was made to the 1972 Decree on insurers’ reserves, under which insurers were allowed to set aside a part of their annual profits in a tax-exempt equalisation reserve.\textsuperscript{19} This change occurred in 1990, when the limits on the maximum amount of and the annual additions to this reserve were decreased by 55%.\textsuperscript{20} The revised regime was effective as of 1 January 1991, and the amount of the equalisation reserve existing at that date had to be decreased and included in taxable profits during a maximum period of eight years. As had been the case about 20 years earlier,\textsuperscript{21} the new system was a compromise between the government and the insurance industry, reached after discussions between the Minister of Finance and the managing directors of the ‘Big Four’ (AEGON, the AMEV, the Delta Lloyd, and the Nationale-Nederlanden).\textsuperscript{22}

7.2.3 Development of the Dutch insurance industry

In the 1990s, the wave of mergers, started in the previous decade, continued.\textsuperscript{23} This was the result of increased competition following the liberalisation of the European market and the related revised structural policy.\textsuperscript{24} The AMEV took the lead by its merger, in 1990, with the Dutch bank VSB Groep and the largest Belgian insurer AG Group, jointly named Fortis.\textsuperscript{25} The creation of this financial conglomerate was quickly followed by the merger of the Nationale-Nederlanden and the NMB Postbank, jointly called ING.\textsuperscript{26}

In the period, the number of supervised domestic life insurance companies increased from 85 to 98, while the number of supervised Dutch branch offices of foreign companies decreased from 11 to 3.\textsuperscript{27} On the other hand, from 1995 onwards 93 funeral-in-kind insurers entered the statistics, the number of which decreased to 47 in 2000. At the same time, 77 foreign insurance companies started to provide life insurance services to the Netherlands under the third life insurance directive, discussed later in this chapter as part of the Dutch prudential reporting developments; in 2000, this number had increased to 153.

\textsuperscript{13} See section 5.2.3.
\textsuperscript{14} Minister van Justitie (1996a), Staatsblad 1996, nr. 134.
\textsuperscript{15} See section 5.2.3.
\textsuperscript{16} Minister van Justitie (1997a), Staatsblad 1997, nr. 175, and Minister van Justitie (1997b), Staatsblad 1997, nr. 178.
\textsuperscript{17} Verzekeringskamer (V1996) and Verzekeringskamer (V1997).
\textsuperscript{18} See section 6.2.2.
\textsuperscript{19} See section 5.2.4.
\textsuperscript{20} Minister van Justitie (1990e), Staatsblad 1990, nr. 639.
\textsuperscript{21} See section 5.2.4.
\textsuperscript{22} Muller (1991).
\textsuperscript{23} van Gerwen (1998c).
\textsuperscript{24} See section 6.6.8.
\textsuperscript{25} See section 3.3.3.
\textsuperscript{26} See section 3.4.5.
\textsuperscript{27} See table A8.12.
The number of supervised domestic non-life insurance companies remained stable around 250.\textsuperscript{28} The number of branch offices of foreign insurers decreased from 139 to 125, but the number of foreign companies providing non-life insurance services increased from 290 in 1995 to 426 in 2000 under the third non-life insurance directive, also described later as part of the Dutch prudential reporting developments.

Total assets of the Dutch life insurers increased from NLG 193 billion to NLG 540 billion, with equity growing from NLG 11.6 billion to NLG 61.1 billion.\textsuperscript{29} The technical provisions life insurance for their own account moved from NLG 156 billion to NLG 407 billion. Total premium income in 2000 was NLG 50.7 billion, compared to NLG 18.5 billion in 1990,\textsuperscript{30} an annual average growth of almost 16%, so well above the increase in GNP per capita. Part of this growth concerned unit-linked type business: its share in total premium income increased from 7% in 1992 to almost 30% in 1997.\textsuperscript{31} And net profit of the Dutch life insurers increased from NLG 1.5 billion to NLG 6.1 billion.\textsuperscript{32}

In the period, the main investment categories at the insurance companies’ risk (as opposed to the policyholders’ risk) shifted from private loans and loans guaranteed by mortgages to debt securities and shares, although the two first categories still formed an important part of the total portfolio.\textsuperscript{33}

For the Dutch non-life insurers, total assets moved from NLG 33.3 billion to NLG 73.6 billion, with equity increasing from NLG 9.0 billion to NLG 20.8 billion.\textsuperscript{34} The technical provisions also doubled from NLG 20.2 billion in 1990 to NLG 40.4 billion in 2000, mainly caused by the increase in the provision for claims outstanding.\textsuperscript{35} The gross premium income climbed from NLG 18.3 billion to NLG 31.6 billion,\textsuperscript{36} on average about 6.4% per annum and only slightly above the growth in GNP per capita, which contradicts the alleged growth opportunities related to the privatisation of the social security system. Net profit increased as well, from NLG 854 million to almost NLG 1.6 billion.\textsuperscript{37} For non-life insurers, debt securities continued to be the main investment category, although the investments in shares became more important.\textsuperscript{38}

Regarding concentration of the industry, the statistics showed that, in 1995, the top-25 life insurance companies represented 85.5% of the total gross premium income.\textsuperscript{39} Within this group, the ING companies counted for 23.3%, the AEGON companies 13.6%, and the Fortis companies 6.6%. For non-life insurance business, the top-25 had a market share of 61.0%, with ING 6.3%, AEGON 3.4%, and Fortis 3.4%. In other words, the life insurance market was much more concentrated than the non-life insurance market, and the three groups reviewed in this dissertation held a much smaller position in the second market than in the first.

\textsuperscript{28} See table A8.17. \\
\textsuperscript{29} See table A8.28. \\
\textsuperscript{30} See table A8.31. \\
\textsuperscript{31} Verbond/NEHA (2000), p. 74. \\
\textsuperscript{32} See table A8.32. \\
\textsuperscript{33} See tables A8.27 and A8.29. \\
\textsuperscript{34} See table A8.35. \\
\textsuperscript{35} See table A8.37. \\
\textsuperscript{36} See tables A8.43 to A8.47. \\
\textsuperscript{37} See table A8.39. \\
\textsuperscript{38} See tables A8.34 and A8.36. \\
\textsuperscript{39} Verbond (2008).
As the statistics for this period are incomparable to those for the previous period,\textsuperscript{40} it is not possible to assess whether the level of market concentration increased or decreased.

7.2.4 The rise and fall of Vie d’Or\textsuperscript{41}

Vie d’Or started its operations in 1985, and, after a slow start, experienced a very fast growth (in particular in 1990), which could not properly be handled in the back office administration. The company sold through intermediaries and suffered high acquisition costs, resulting in a deterioration of equity, which was partly resolved through capital injections from shareholders. However, it also started deferring its acquisition costs, and concluded (with the approval of the Insurance Chamber) several reinsurance contracts, which guaranteed a certain level of profitability of specific parts of the life insurance portfolio. However, these solutions did not resolve all problems in respect of the solvency position, and the Insurance Chamber increased its level of supervision and required actions to address the problems.

In August 1992, it became clear that the company did not meet the required solvency margin at the end of 1991,\textsuperscript{42} and in June 1993 the Insurance Chamber made it clear that it had no confidence anymore in a standalone continuation of Vie d’Or. Before the discussion on this issue could be finalised, the new CEO – appointed on 1 November 1993 – informed the Insurance Chamber about findings concerning a number of unusual transactions, pointing at mismanagement and potential criminal facts. Shortly after, he informed the press about his findings, which resulted in the actual discontinuity of the company. Immediately after this event the Insurance Chamber appointed a receiver, who reported in the beginning of December 1993 that at 30 September of that year a solvency deficit of around NLG 80 million existed, half of which included the write-down of receivables from the reinsurance treaties discussed above. Since the shareholders were not willing to provide additional capital, the Insurance Chamber revoked the authorisation and asked the Court for approval to invoke the emergency regulations, granted on 15 December 1993. After Court approval to decrease the contractual benefits of policyholders with an amount of NLG 122 million (on a total liability of NLG 372 million), the portfolio of Vie d’Or was transferred to another Dutch insurance company on 1 August 1994. As a result of the need to unwind long-term investment contracts, the total deficit increased to about NLG 185 million. On 11 December 1995, Vie d’Or was declared bankrupt.

The fall of Vie d’Or caused a political debate in the Second Chamber about the adequacy of the supervisory activities by the Insurance Chamber.\textsuperscript{43} This resulted in the establishment of a temporary committee to investigate these activities, chaired by G. Ybema, a member of the Second Chamber. The committee submitted its report to the Second Chamber on 16 October 1995, and concluded that the Insurance Chamber had not fully utilised the available supervisory instruments and that its supervision of Vie d’Or had not been adequate. The report included a number of general recommendations to improve the supervisory process.

\textsuperscript{40} See section 6.2.3.

\textsuperscript{41} Unless indicated otherwise, this section on Vie d’Or has been written using material in three special reports issued by the Insurance Chamber on their activities during the period of exercising its special powers under the emergency regulations. See (Verzekeringskamer (1994a), Verzekeringskamer (1994d) and Verzekeringskamer (1995c)).

\textsuperscript{42} Commissie Ybema (1995).

\textsuperscript{43} Ibid.
The Minister of Finance broadly concurred with the findings of the Ybema committee, announced future changes in supervisory legislation, and stated his intention to start discussions with the Insurance Chamber, the Association of Insurers and the Ministry of Justice (responsible for financial reporting legislation) to determine whether a certain amount of standardisation of accounting principles in the prudential returns could contribute to better comparison for supervisory purposes. This resulted in the incorporation of the ‘Traas Committee’, mentioned later in this chapter in the section on the Dutch financial reporting developments.

The bankruptcy of Vie d’Or also triggered an investigation into the Vie d’Or events by three independent experts appointed by the Enterprise Chamber. Their report was submitted at the end of 1997, and concluded that “Vie d’Or has frequently utilised methods to accelerate income … and to defer charges … Such methods were, in our opinion, for the major part not only unacceptable, but meant also that risks were transferred to policyholders instead of shareholders.” They also used expressions such as “misleading”, “not careful”, and “unacceptable”. According to the investigators, the mere character of a life insurance company required that extra attention should be given to the accounting concepts of prudence and realisation. The Enterprise Chamber supported the findings and conclusions in the report and ruled that mismanagement had occurred at least during the period from 1988 to January 1994 by the management, the supervisory board and the Insurance Chamber. Additionally, it declared the decisions to approve the financial statements for the period 1989-1993 void.

Based on the findings of the Ybema committee and the rulings of the Enterprise Chamber, as well as on special purpose reports prepared by forensic auditors and lawyers, the ‘Stichting Vie d’Or’ (a foundation created to act in the interest of and on behalf of the former policyholders) started legal proceedings for damages against a large number of involved parties. Court cases ran from 2001 to 2006. Finally, a settlement was reached out of court in May 2008 for an amount of EUR 45 million (about NLG 100 million) in favour of all former policyholders, which was declared legally binding on 29 April 2009.

The fall of Vie d’Or resulted in a number of debates on the adequacy of the existing reporting requirements for Dutch insurers (including the prevailing type 4 single-track reporting approach) and in several initiatives and legislative changes. These are presented in the next chapter.

7.2.5 Summary and conclusions

In the period, the Dutch population continued to grow. But GNP per capita increased faster, at, in real terms, an average annual rate of about 4.8%. Despite these developments, the Dutch government decided to take steps to diminish the growing pressure on its social security system by reducing the benefits, amending the funding systems, and privatising part of the system.

Regarding the tax system, no fundamental reforms occurred for companies in general. However, insurers were faced, in the beginning of the period, with a significant reduction in their possibilities to create tax-exempt fiscal equalisation reserves and a mandatory decrease of the existing reserves.

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44 Tweede Kamer (1996a), nr. 23669, nr. 15.
45 Ondernemingskamer (1998).
46 Website Stichting Vie d’Or: http://www.stichtingviedor.nl.
47 See sections 8.4 and 8.6.
As far as the insurance industry was concerned, the wave of mergers continued as a result of the liberalisation of the European market and the revised structural policy, enabling mergers between banks and insurers. The size of the insurance market kept growing, as did the number of supervised insurance companies. On the other hand, the statistics also show a high level of concentration, in particular in the life insurance market, with a leading position for ING and high rankings for both AEGON and Fortis.

On top of these developments, the period witnessed the fall of a Dutch life insurer, which triggered a number of debates about the existing reporting requirements and resulted in several changes, described in the next chapter.

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

7.3.1 Introduction
This section describes the developments of the European Community, with the entrance of new member states, amended treaties, the introduction of a common currency (the ‘euro’), and the issuance of new accounting and prudential directives for banks and insurers. In addition, the period showed the start of a debate on the future of the European accounting standards, which included a consideration of the use of IAS. These discussions were actively supported by the FEE.

On the global level, the section presents the developments of the IASC and the initiatives to establish some level of international coordination on the prudential supervision of banks and insurers.

7.3.2 Reporting developments at the European level

7.3.2.1 Developments in the European Community
During the years 1990-1999, the Community expanded with the entrance of Austria, Finland and Sweden on 1 January 1995.48

The most important change in the treaties occurred in Maastricht (the Netherlands), where, in December 1991, an agreement was reached on a treaty on the European Union.49

With this treaty, the member states established a European Union (henceforth, the ‘EU’), to be founded on the European Communities (henceforth, the ‘EC’).50 The treaty maintained and updated the topics covered in the previous treaty, but also introduced new topics such as economic and monetary policies. Regarding capital and payments, it clarified that all restrictions on their movements between the member states and with third countries would be prohibited.

As a next step in this process, the European Commission adopted, in May 1995, a green paper on the practical arrangements for the introduction of a single currency.51 A Council meeting held in Cannes (France) in June 1995 confirmed the transition to this single currency (the euro) by 1 January 1999. Subsequently, Council Regulation 1103/97 of 17 June 1997 stipulated that every reference in a legal instrument to the ECU would be replaced by a reference to the euro at a rate of one euro to one ECU.

50 European Commission (2010).
51 Ibid.
In May 1998, a special Council decided that 11 member states (including the Netherlands) satisfied the conditions for adoption of the single currency on 1 January 1999. The accounting issues related to the introduction of the euro were discussed in a special brochure, issued by the European Commission in 1997, discussed later as part of the Dutch financial reporting developments.

The activities in respect of financial reporting requirements focused, in particular, on the development of directives for the financial statements of banks (the ‘banking accounts directive’) and of insurance companies (the ‘insurance accounts directive’). Furthermore, the European Commission issued several new or amended listing directives. These activities are discussed later in this chapter when presenting their implementation in the Dutch financial reporting requirements.

At the same time, the European Commission took, in response to the April 1989 call of the FEE described in the previous chapter, several initiatives to reconsider its approach to financial reporting requirements, described in further detail in the next chapter:

- The organisation of a conference on the future of harmonisation of accounting standards in January 1990, in which it became clear that, despite the existence of the accounting directives, there was still a large amount of diversity in the EU in respect of financial reporting legislation and practices;
- The publication of a strategy document on international accounting harmonisation in 1995, which advocated putting the EU’s weight behind the activities of the IASC;
- The issuance of a report on the conformity between IAS and the accounting directives in 1996, which identified only a limited number of issues; and
- The publication of a financial services action plan in 1998, indicating a possible mandatory adoption of IAS by companies listed in the EU.

In the period under review, the European Commission completed its supervisory framework for insurance companies, by issuing the second and third life insurance directives, the third non-life insurance directive, and a directive on the supplementary supervision of insurance groups. Regarding the banking industry, supervision was strengthened in particular on consolidated level. These developments are described later as part of the Dutch prudential reporting developments.

### 7.3.2.2 The activities of the FEE

In the period reviewed in this chapter, the FEE issued several surveys of European accounting practices. The first was published in September 1990, investigating a number of topics in each member state, to determine whether additional guidance was desirable to harmonise the accounting treatments. On tax and pension accounting, the survey revealed substantial country-by-country differences. For segment reporting, legislation was enacted in almost all member states, but there were several differences in the national laws and in practice. The FEE also published the results of a survey of a number of 1989 financial statements in 15 European countries (which, however, excluded financial institutions), and a survey on the accounting rules for pensions in the EU.

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53 See section 6.3.2.2.
54 See section 8.3.3.2.
Furthermore, the FEE published in 1997 a document discussing the accounting treatment of financial instruments. It was the response to a request from the European Commission, mainly driven by the increasing variety and complexity of financial instruments since the development of the directive, in particular in respect of derivatives.

During the period, the FEE was also active in commenting on or providing assistance in the development of IASC proposals. This concerned, for instance, exposure draft E40 regarding financial instruments, described later in this chapter when presenting the Dutch financial reporting requirements. The FEE also prepared, at the request of the IASC, a ‘statement of principles’ for an international accounting standard for insurance companies. This is discussed in the next chapter. Finally, at the end of the period, the FEE presented a discussion paper on the financial reporting strategy in Europe, as a contribution to the European debate on the future use of IAS. This report is discussed in the next chapter as well.

7.3.3 Reporting developments at the global level – The activities of the IASC and other global organisations

7.3.3.1 The activities of the IASC

The 1990s can, in my view, be seen as a period of growth to maturity and international acceptance of the IASC. This development triggered, near the end of the period, a debate about the future structure of the IASC and, ultimately, led to the creation of the IASB in 2000.

A large number of activities of the IASC resulted, as is explained in the previous chapter, from its March 1987 decision to start a program (the ‘comparability project’) to reduce the number of options in the standards. This resulted in exposure draft E32, approved in November 1988, proposing amendments to 13 standards. The main reason to start the project was to remove free choices, which were necessary in the past to gain acceptance of certain standards. The exposure draft also referred to the agreement with the IOSCO, discussed in the previous chapter. As is explained there, this resulted, in my view, in an increased focus of the IASC on the information needs of investors. In the exposure draft, the IASC recognised that there was, at that time, no consensus on accounting measurement bases and that the historical cost system remained the predominant system throughout the world. For that reason, the exposure draft favoured those treatments that were based on historical cost while recognising the undoubted usefulness of information based on current values. The criteria used to decide which alternatives should be required or preferred were:

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58 FEE (1997).
59 See section 8.4.4.7.2.
60 FEE (1999b).
61 See section 8.3.3.2.
62 See section 8.3.2.1.
63 See section 6.3.3.
64 IASC (1988c).
65 See section 6.3.3.
• Current worldwide practices and trends in national GAAP;\textsuperscript{66}
• Conformity with the proposed IASC conceptual framework, described later in this chapter when presenting the Dutch financial reporting developments;
• The views of regulators and their representative organisations, such as the IOSCO; and
• Consistency within an IAS and with other IAS.

Concerning conformity with the conceptual framework, the IASC clarified that it had elected, in the interest of enhancing the comparability of financial information on a timely basis, a treatment that followed current worldwide practices and trends rather than one that conformed most closely to the conceptual framework. In case it was necessary to retain more than one accounting treatment, the IASC identified one as the preferred treatment and the other as an allowed alternative.

In response to the comment letters on E32, the IASC decided in June 1990 to publish a ‘Statement of intent’, showing how it meant to deal with the 29 options covered by the document.\textsuperscript{67} One of the changes concerned the replacement of the proposed term ‘preferred treatment’ by ‘benchmark treatment’, since this more closely reflected the intentions of the IASC. Before implementation of the agreed changes, other amendments would be introduced as part of the so-called ‘improvements project’.

This project, approved in November 1990, was designed to achieve two goals: to complete the comparability project and to take into account the developing views of securities regulators (focusing on the information needs of investors), in particular the IOSCO.\textsuperscript{68} This organisation had discussed in November 1990 the IASC’s comparability project, the resulting statement of intent and the planned improvements project.\textsuperscript{69} With this in mind, the IASC decided to improve all existing standards, to ensure that they were sufficiently detailed and complete and included adequate disclosure requirements. Furthermore, the project had to fill the major gaps in the IASC literature by addressing issues not yet covered by existing standards. As part of this work, it was also decided to revise all standards in terms of format and style to eliminate inconsistencies and to bring the standards in line with the wording used in the conceptual framework. The improvements project was completed in November 1993.\textsuperscript{70}

As is described in the previous chapter, the status of the IASC was enhanced by the encouragement of the IOSCO, the support of the SEC and the entrance of the FASB as an official observer, all occurring in 1988.\textsuperscript{71} And in 1990, the European Commission accepted the invitation to attend the IASC meetings as a guest, subsequently as an observer.\textsuperscript{72} However, near the end of 1994 the IASC experienced a serious potential drawback in its international acceptance, resulting from developments in the IOSCO.\textsuperscript{73}

\textsuperscript{66} As is explained in section 2.7, I use a wide definition of GAAP, as follows: “GAAP is a set of generally agreed conventions, rules and procedures for the financial reporting practices by companies”.
\textsuperscript{67} IASC (1990b).
\textsuperscript{68} The description of this project is based on Camfferman and Zeff (2007), p. 280-286.
\textsuperscript{69} IOSCO (1990).
\textsuperscript{70} Camfferman and Zeff (2007), p. 273.
\textsuperscript{71} See section 6.3.3.
\textsuperscript{72} Camfferman and Zeff (2007), p. 228-229.
\textsuperscript{73} World Accounting Report (1994).
After the IOSCO and the IASC decided in 1993 on a list of core standards that should be finalised before the IOSCO could endorse IAS, the IOSCO informed the IASC in 1994 that 14 standards were acceptable to them, four unacceptable, and that its opinion on six other standards would be deferred, since these were being reviewed by the IASC. Shortly afterwards, the IOSCO stated that it would not endorse any further standard until the IASC had completed all core standards. Although the IASC strongly objected to the revised IOSCO approach, it had no other alternative than to react, which, in July 1995, led to an agreed ‘core standards work program’. Soon thereafter, the IOSCO began sending an observer to the meetings.

The IASC-IOSCO initiative received a further impetus from the SEC in an important press release issued on 11 April 1996. The SEC affirmed that it “supports the IASC’s objective to develop, as expeditiously as possible, accounting standards that could be used for preparing financial statements used in cross-border offerings. From the SEC’s perspective, there are three key elements to this program and the SEC’s acceptance of its results:

- The standards must include a core set of accounting pronouncements that constitutes a comprehensive, generally accepted basis of accounting;
- The standards must be of high quality – they must result in comparability and transparency, and they must provide for full disclosure; and
- The standards must be rigorously interpreted and applied.”

To meet its part of the third requirement, the IASC established, in September 1996, the ‘Standing Interpretations Committee’ (henceforth, the ‘SIC’). The core standards work program was completed at the end of 1998. As is described in the next chapter, the IOSCO endorsed the resulting package of standards in May 2000.

At the end of the period reviewed in this chapter, the IASC had issued 39 (revised) standards, supported by 23 interpretations. Those relevant for this dissertation and implemented in the Netherlands are presented later in this chapter when describing the Dutch financial developments.

7.3.3.2 The activities of other global organisations

The previous description shows that the activities of the IASC and the IOSCO focused on improving the global financial reporting standards and practices.

In the area of prudential reporting requirements, the main supervisor was the ‘Basel Committee of Banking Supervisors’ (henceforth, the ‘Basel committee’).

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74 IOSCO (1994).
76 Ibid, p. 229.
77 Ibid, p. 332.
78 According to Flower (1997), the SEC had set three conditions that the IASC would find extremely difficult to meet. Furthermore, even if it did, the SEC had only promised to consider the IASC standards. In his view, the SEC was attempting to extricate itself, in a not very elegant way, from the original moral commitment that it made through the IOSCO.
81 See section 8.3.2.2.
The Basel committee was established by the governors of the central banks of the ten most important industrial countries (the ‘Group of Ten’ or ‘G10’) at the end of 1974. To improve the quality of banking supervision worldwide, it formulated broad supervisory standards and guidelines and recommended statements of best practice. In the early 1980s, the Basel committee became concerned that the capital ratios of the main international banks were deteriorating just at the time when the international risks were growing. This resulted in broad consensus on a weighted approach to the measurement of risk, both on and off the balance sheet. The outcome of this process was a capital measurement system commonly referred to as the ‘Basel capital accord’ or the ‘1988 accord’, approved by the G10 governors and released in July 1988. It included the so-called ‘BIS-ratios’ and provided for the implementation of a framework with a minimum ratio of capital to risk-weighted assets of 8% by the end of 1992.

Another activity of the Basel Committee concerned the supervision of financial conglomerates. It was working closely together with the IOSCO and the ‘International Association of Insurance Supervisors’ (henceforth, the ‘IAIS’) to study the challenges presented by the development of such groups. Initially, in the beginning of 1993, this cooperation was in the informal ‘Tripartite Group of Securities, Insurance and Bank Regulators’, but from 1996 in the ‘Joint Forum on Financial Conglomerates’ (henceforth, the ‘Joint Forum’). Finally, the Basel committee also developed contacts with other regional and global organisations, such as the IASC. This resulted in a report, issued in April 2000, on the findings and conclusions on its review of IAS, described in the next chapter.

The IAIS was created in 1994, following cooperation activities between insurance supervisors at the regional level. This occurred in the EU in the Conference of European Insurance Supervisory Authorities, described in a previous chapter, but also outside Europe, where similar regional conferences of insurance supervisors existed. Following the globalisation of the insurance market, the US NAIC began inviting, in the early 1980s, insurance supervisors from all over the world to participate in its summer meeting and to have an informal exchange of experience and information. The IAIS was the result of this initiative, and complemented the Basel Committee and the IOSCO. In the middle of 2009, the IAIS represented insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries, constituting 97% of the world’s insurance premiums.

In 1997, the IAIS issued its first four papers, dealing with insurance supervisory principles, guidance on insurance regulation and supervision for emerging markets, an insurance concordat (focusing on the supervision of international groups), and a model memorandum of understanding for information exchange between supervisors.

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82 Basel committee (2009).
83 See section 8.3.2.2.
84 Hohlfeld (2000).
85 See section 5.4.1.3.
86 www.iaisweb.org.
87 Hohlfeld (2000).
7.3.4 Summary and conclusions
This section shows that, next to the steps to introduce the euro as a common currency in the EU, the most important developments at the European level were, in my view, the publication of directives on the financial statements of banks and insurers, and the start of a debate on the future accounting standards, including the possible mandatory adoption of IAS by EU-listed companies.

Additionally, the prudential reporting requirements for insurers and insurance groups were expanded. The financial reporting developments were actively supported by the FEE through the publication of several surveys and a discussion paper on IAS.

On the global level, the activities and the level of international acceptance of the IASC continued to grow, in particular in the area of the removal of options and the completion of a set of core standards, agreed with the IOSCO. These activities increased the focus of the IASC on the information needs of investors. In the supervisory domain, the activities of the Basel Committee in respect of banking supervision and the establishment of its insurance counterpart the IAIS, as well as the creation of the Joint Forum on Financial Conglomerates, were the most important developments.

7.4 Financial reporting developments in the Netherlands and the European Community

7.4.1 Introduction
This section presents the financial reporting developments in the Netherlands, as far as relevant for the topics discussed in this dissertation. As the focus of this dissertation is on insurers and their parent companies, and any banking subsidiaries are not included in the scope, this section discusses only those financial reporting requirements for banks that are relevant for the consolidated annual accounts of financial conglomerates. Furthermore, as these groups were created only in 1990, the historical development of these requirements is not presented in detail.

The description shows the development of the European banking and insurance accounts directives, and their subsequent incorporation in the Dutch financial reporting requirements. One of the issues debated in the banking environment concerned the power of the banking supervisor DNB to prescribe the way in which the financial statements of banks had to be prepared. In contrast, such a debate was completely absent in the insurance area, where, without discussions, it was decided to create specific links between the prudential and financial reporting requirements. As a result, despite the legal differences a single-track reporting approach was applied in both sectors of the financial services industry, although, as is presented later in the section describing the Dutch prudential reporting developments, the type of approach would evolve.

The section also describes the growing importance of the IASC and its pronouncements in the Dutch financial reporting environment by their incorporation, to a very high extent, in the guidelines of the RJ. But there were also RJ developments which were unrelated to the IASC: this concerned the publication of a draft guideline for the financial statements of banks, and a final guideline for the annual accounts of insurance companies.
In respect of the guideline for insurance companies, the description shows that, at least according to some commentators, it included several controversial elements, and resulted in an extension of the debate on a single-track reporting approach, something that had started at the end of the previous period described in this dissertation.  

Finally, the section describes the adoption of financial reporting requirements for financial conglomerates, created at the beginning of the period after the liberalisation of the existing structural policy, at the time when no specific requirements for the annual accounts of such groups existed.

7.4.2 Legislative developments

7.4.2.1 The financial reporting requirements for banks

7.4.2.1.1 The reporting practices before 1993

Before 1993, Dutch banks prepared their financial statements in accordance with models determined by the DNB under the credit institutions supervision act of 1978, described later in this chapter when discussing the Dutch prudential reporting developments. Although these models officially focused on the prudential returns, the DNB had elected a single-track reporting approach to reduce the administrative expenses of the banks, but also to improve comparability between banks. Given its position as the prudential supervisor of banks, the views of the DNB could not be ignored in practice, and the approach was generally supported by the industry.

The models contained the mandatory formats for the balance sheet and for the profit and loss account, including the requirement to present the ‘voorziening voor algemene risico’s’ (the provision for general risks, henceforth, the ‘VAR’) under creditors, in line with the possibility introduced in the 1970 companies’ annual accounts act. This meant that the existence, but not the size of the VAR was disclosed. On the other hand, any additions had to be presented as a separate line item in the profit and loss account. The VAR served to cover the general risks of the banking business. Although the DNB had not issued specific guidelines regarding its calculation, it did require that any related tax had to be charged against the balance sheet item. Regarding the utilisation of the VAR, only credit losses on receivables and unforeseeable charges, for instance from large frauds or nationalisations, could be charged to the VAR: all other losses should be included in the profit and loss account. These reporting requirements stayed in force until 1993, when changes were introduced as a result of the Dutch implementation of the European banking accounts directive, discussed next. For supervisory purposes, the DNB considered the VAR to be a component of equity. In other words, it applied a kind of ‘reverse prudential filter’ to assess the available solvency margin of a bank, under which the liabilities in the financial statements of a supervised bank were adjusted downwards instead of upwards: a type 4 single-track reporting approach.

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88 See section 6.7.
89 Vliem (1981).
90 de Haan (1993b).
91 This act is discussed in section 6.4.2.1.
92 van der Wal (1989).
7.4.2.1.2 The banking accounts directive 86/635/EEC

This directive was published in 1986,\(^{94}\) as a complement to the fourth and the seventh directives,\(^{95}\) regulating the relevant issues of credit institutions. It was based on a draft, issued in 1981,\(^{96}\) amended in 1984,\(^{97}\) and in 1985.\(^{98}\) The directive included prescribed layouts for the balance sheet and the profit and loss account, presented in annex 9,\(^{99}\) and several accounting principles.

The most important accounting principles in the directive concerned financial instruments that were neither held as financial fixed assets nor included in a trading portfolio: they should be valued at the purchase price less value adjustments. However, the member states could, pending subsequent coordination, permit:

- These assets to be shown at a lower value, where that was required by the prudence dictated by the particular risks associated with banking business. Nevertheless, the difference between the two values could not be more than 4% of the total amount of these assets; and
- That this lower amount was maintained until the credit institution decided to adjust it.

The member states that exercised this option should permit, and the other member states could permit, the introduction of a disclosed ‘Fund for general banking risks’ at part of the liabilities. That item should include those amounts that a credit institution decided to put aside to cover the particular risks associated with banking activities. The net balance of the increases and decreases of that fund should be shown separately in the profit and loss account. As a result, a bank could have both an undisclosed reserve by reduced assets and a disclosed reserve under the liabilities.

The directive made no reference at all to the prudential banking directives and did not discuss a single-track reporting approach for banks or for the holding companies of banking groups.

7.4.2.1.3 The Dutch implementation of the banking accounts directive

The directive was implemented in the Dutch legislation in 1993 as an addition to book 2 of the civil code, complementing the existing generic financial reporting requirements.\(^{100}\) The requirements for supervised banks were also applicable to their parent companies, if they carried out no other activities than those of a pure holding company.

The main debate in Parliament during the discussions on the bill focused on the role of the DNB.\(^{101}\) The government initially proposed to delegate, with certain limitations, to the DNB the authority to prescribe the mandatory reporting models, the accounting principles to be applied, and the contents of the notes (an obligatory type 3 or type 4 single-track reporting approach under the authority of the banking supervisor). These proposals were, however, not supported by the RJ and a number of other organisations, since they considered it an inappropriate addition to the role of the DNB as the prudential supervisor.

\(^{94}\) European Commission (1986b).
\(^{95}\) See sections 6.4.2.2 and 6.4.2.3, respectively.
\(^{99}\) See tables A9.27 to A9.30.
\(^{100}\) Minister van Justitie (1993a), Staatsblad 1993, nr. 258.
\(^{101}\) Tweede Kamer (1991), nr. 22169.
These objections against the proposed authority of the DNB were shared by Parliament, and it was ultimately decided that the requirements in respect of the models (encompassing the accounting principles) should be included in the legislation itself and not left to the DNB. However, to avoid further delays, the final act introduced the possibility – as an interim step – to include them in an Administrative Decree.102

Another discussion in Parliament focused on the VAR. Under the initial proposal, the VAR would be abolished and replaced by an undisclosed decrease of assets, a disclosed fund for general banking risks, or both. Based on a concern that the Dutch practice might deviate from international developments (since this practice was prohibited under IAS), the government subsequently revised the bill, now proposing – with an interim assessment in 1995 – the complete abolishment of the VAR from 1998 onwards.

In my view, the reference to IAS in this debate was remarkable, since, at the time, the European Commission was not ready at all to accept IAS as a basis for future reporting developments, as is described in the next chapter.103 The reference did not specify any particular IAS. Although the prohibition of a provision for general business risks was already included in IAS 10,104 I consider it more likely that the debate referred to IAS 30 ‘Disclosures in the financial statements of banks and similar institutions’, since the bill was about such financial statements.

IAS 30 was issued in June 1990.105 It was the last step in a process that started in October 1979 with the approval of a discussion paper.106 This was followed by two exposure drafts: the first was E29, issued in November 1986,107 and the second E34, approved in April 1989.108 The standard included lists of items to be disclosed, as a minimum, in the balance sheet, the profit and loss account, or in the notes. Regarding the accounting treatment of losses on loans and advances, IAS 30 required disclosures of the accounting policy, details of the movements in the provisions for losses on loans and advances, and the amount of the provisions at the balance sheet date. These provisions should be deducted from the carrying value of the related assets. A provision for general banking risks was not allowed. If amounts were set aside for such risks, they should be part of equity, and any additions should be separately disclosed.

A final issue in the Dutch parliamentary discussions focused on the annual accounts of financial conglomerates, in particular which accounting policies had to be applied and whether the amounts of equity for the banking and insurance segments had to be disclosed. Reference was made to an advice issued in January 1992 by a joint working group of the industry associations of banks and insurers, discussed later in this section when presenting the reporting developments of financial conglomerates.

102 Ultimately, the contents of the models have never been included in the civil code.
103 See section 8.3.3.2.
104 See section 6.4.3.4.
105 IASC (1990a).
106 IASC (1986).
109 IASC (1979d). This paper was the result of discussions between the IASC and the Basel Committee. Both organisations recognised that harmonisation of the accounting requirements for banks required further study, but they agreed that a first step was to expand the disclosures in the financial statements of banks.
The new requirements were effective immediately, i.e. for the financial statements 1993.\textsuperscript{109} However, as a transitional relief, banks were allowed, in their 1994 and 1995 accounts, to maintain their existing VAR as an undislosed reserve under the liabilities. The related Administrative Decree (the ‘Besluit modellen banken’, henceforth, the ‘Decree on the models for banks’) was published simultaneously.\textsuperscript{110} This Decree did not include any accounting principles: the explanatory part noted that this should be done by the RJ, if necessary. In my view, this can be seen as a legal recognition of the role of the RJ in the process of setting Dutch financial reporting requirements. As is shown in the next chapter, it would, however, only be in 1999 that the RJ issued a draft guideline on the financial statements of bank, which, effectively, codified existing practices.\textsuperscript{111} Finally, an amendment to the Decree on the models for annual accounts was issued, to incorporate the new models for banks.\textsuperscript{112} These formats are included in the comprehensive overview of reporting formats in annex 9 and presented hereafter. Comparing the new to the old formats, there were no significant substantive changes apart from the introduction of new terminology.\textsuperscript{113} For the profit and loss account, the table hereafter in this section presents model L, the vertical format. Alternatively, model M used the horizontal T-format.

### Table 7.1: Decree of 1993 on the models for annual accounts – model K for banks – balance sheet – assets

<table>
<thead>
<tr>
<th>Assets</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Cash in hand, balances with central banks and post office banks</td>
</tr>
<tr>
<td>B</td>
<td>Treasury bills and other bills eligible for refinancing with central banks</td>
</tr>
<tr>
<td>C</td>
<td>Loans and advances to credit institutions</td>
</tr>
<tr>
<td>C1</td>
<td>Repayable on demand</td>
</tr>
<tr>
<td>C2</td>
<td>Other loans and advances</td>
</tr>
<tr>
<td>D</td>
<td>Loans and advances to customers</td>
</tr>
<tr>
<td>D1</td>
<td>Issued by public bodies</td>
</tr>
<tr>
<td>D2</td>
<td>Issued by other borrowers</td>
</tr>
<tr>
<td>E</td>
<td>Debt securities including fixed-income securities</td>
</tr>
<tr>
<td>E1</td>
<td>Issued by public bodies</td>
</tr>
<tr>
<td>E2</td>
<td>Issued by other borrowers</td>
</tr>
<tr>
<td>F</td>
<td>Shares and other variable-yield securities</td>
</tr>
<tr>
<td>F1</td>
<td>Shares in credit institutions</td>
</tr>
<tr>
<td>F2</td>
<td>Shares in other institutions</td>
</tr>
<tr>
<td>G</td>
<td>Shares in affiliated undertakings</td>
</tr>
<tr>
<td>G1</td>
<td>Participating interests in credit institutions</td>
</tr>
<tr>
<td>G2</td>
<td>Participating interests in other institutions</td>
</tr>
<tr>
<td>H</td>
<td>Intangible assets</td>
</tr>
<tr>
<td>H1</td>
<td>Formation expenses</td>
</tr>
<tr>
<td>H2</td>
<td>Cost of research and development</td>
</tr>
<tr>
<td>H3</td>
<td>Concessions, licences and trademarks</td>
</tr>
<tr>
<td>H4</td>
<td>Goodwill</td>
</tr>
<tr>
<td>H5</td>
<td>Prepaid on intangible assets</td>
</tr>
<tr>
<td>I</td>
<td>Tangible assets</td>
</tr>
<tr>
<td>I1</td>
<td>Land and buildings occupied by a credit institution for its own activities</td>
</tr>
<tr>
<td>I2</td>
<td>Other land and buildings</td>
</tr>
<tr>
<td>K</td>
<td>Other assets</td>
</tr>
<tr>
<td>L</td>
<td>Subscribed capital called but not paid</td>
</tr>
<tr>
<td>M</td>
<td>Prepayments and accrued income</td>
</tr>
</tbody>
</table>


\textsuperscript{109} Minister van Justitie (1993a), Staatsblad 1993, nr. 258.
\textsuperscript{110} Minister van Justitie (1993b), Staatsblad 1993, nr. 259.
\textsuperscript{111} See section 8.4.3.2.
\textsuperscript{112} Minister van Justitie (1993c), Staatsblad 1993, nr. 260.
\textsuperscript{113} de Haan (1993a).
Table 7.2: Decree of 1993 on the models for annual accounts – model K for banks – balance sheet – liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> Amounts owed to credit institutions</td>
</tr>
<tr>
<td>1 Repayable on demand</td>
</tr>
<tr>
<td>2 With agreed maturity dates or periods of notice</td>
</tr>
<tr>
<td><strong>B</strong> Amounts owed to customers</td>
</tr>
<tr>
<td>1 Saving deposits</td>
</tr>
<tr>
<td>1.1 Repayable on demand</td>
</tr>
<tr>
<td>1.2 Others</td>
</tr>
<tr>
<td>2 Other debts</td>
</tr>
<tr>
<td>2.1 Repayable on demand</td>
</tr>
<tr>
<td>2.2 Others</td>
</tr>
<tr>
<td><strong>C</strong> Debts evidenced by certificates</td>
</tr>
<tr>
<td>1 Debts securities in issue</td>
</tr>
<tr>
<td>2 Others</td>
</tr>
<tr>
<td><strong>D</strong> Other liabilities</td>
</tr>
<tr>
<td><strong>E</strong> Accruals and deferred income</td>
</tr>
<tr>
<td><strong>F</strong> Provisions for liabilities and charges</td>
</tr>
<tr>
<td>1 Provisions for pensions and similar obligations</td>
</tr>
<tr>
<td>2 Provision for tax</td>
</tr>
<tr>
<td>3 Other provisions</td>
</tr>
<tr>
<td><strong>G</strong> Subordinated liabilities</td>
</tr>
<tr>
<td><strong>H</strong> Subscribed capital</td>
</tr>
<tr>
<td><strong>I</strong> Share premium account</td>
</tr>
<tr>
<td><strong>J</strong> Revaluation reserve</td>
</tr>
<tr>
<td><strong>K</strong> Legal and statutory reserves</td>
</tr>
<tr>
<td>1 Legal reserves</td>
</tr>
<tr>
<td>2 Statutory reserves</td>
</tr>
<tr>
<td><strong>L</strong> Other reserves</td>
</tr>
<tr>
<td><strong>M</strong> Profit or loss brought forward</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Off-balance sheet items</strong></td>
</tr>
<tr>
<td><strong>A</strong> Contingent liabilities</td>
</tr>
<tr>
<td>1 Discounted bills of exchange</td>
</tr>
<tr>
<td>2 Guarantees</td>
</tr>
<tr>
<td>3 Irrevocable letters of credit</td>
</tr>
<tr>
<td>4 Others</td>
</tr>
<tr>
<td><strong>B</strong> Commitments</td>
</tr>
<tr>
<td>1 Commitments arising out of cession and retrocession</td>
</tr>
<tr>
<td>2 Others</td>
</tr>
</tbody>
</table>

Source: table A9.100.
Table 7.3: Decree of 1993 on the models for annual accounts – model L for banks – profit and loss account

<table>
<thead>
<tr>
<th>Interest receivable and similar income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Interest from debt securities and other fixed-income securities</td>
</tr>
<tr>
<td>2 Other interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest payable and similar charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from securities and shares in affiliated undertakings</td>
</tr>
<tr>
<td>1 Income from shares and other variable-yield securities</td>
</tr>
<tr>
<td>2 Income from shares in affiliated undertakings</td>
</tr>
<tr>
<td>3 Income from participating interests</td>
</tr>
<tr>
<td>Commissions receivable</td>
</tr>
<tr>
<td>Commissions payable</td>
</tr>
</tbody>
</table>

<p>| Net profit or net loss on financial operations |</p>
<table>
<thead>
<tr>
<th>General administrative expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Staff costs</td>
</tr>
<tr>
<td>1.1 Wages and salaries</td>
</tr>
<tr>
<td>1.2 Social security costs</td>
</tr>
<tr>
<td>2 Other administrative expenses</td>
</tr>
</tbody>
</table>

| Depreciation and value adjustments in respect of intangible and tangible fixed assets |
| Other operating charges |
| Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments |
| Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments |
| Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings |
| Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings |

| Total operating charges |
| Profit or loss on ordinary activities before tax |
| Tax on profit or loss on ordinary activities |
| Profit or loss on ordinary activities after tax |
| Extraordinary income |
| Extraordinary charges |
| Tax on extraordinary profit or loss |
| Extraordinary profit or loss after tax |
| Profit or loss for the financial year |


Despite the abolishment of the authority of the DNB to determine the financial reporting rules, it was still allowed to make recommendations, and did so on 20 October 1993.\(^{114}\) They were subsequently included in a revision of the so-called ‘Handbook WTK’ published in October 1994.\(^{115}\) This was a DNB publication that contained a number of detailed reporting requirements under the credit institutions supervision act, something that did not exist as such under the prudential insurance requirements, although the Administrative Decree prescribing the reporting models did include accompanying instructions on the prudential returns of insurance companies. The Handbook included specific accounting policies. Although it officially focused on the prudential returns only, the type 3 or type 4 single-track reporting approaches implied that the requirements were also applicable to the financial statements. I therefore share the views expressed by KPMG in its 1994 brochure on the financial reporting practices of Dutch banks that the DNB, effectively, limited in this way the amount of freedom that the act had given to the banks, and that, under this approach, prudential reporting requirements prevailed over financial reporting requirements, despite the fact that the government and Parliament had explicitly decided not to give this authority to the prudential supervisor in respect of the financial statements of banks.\(^{116}\)

\(^{114}\) KPMG (1994).
\(^{115}\) DNB (1994).
\(^{116}\) KPMG (1994).
In response to the government’s intention to abolish the VAR in the future, the ‘Nederlandse Vereniging van Banken’ (the ‘Dutch Bankers Association’, henceforth, the ‘NVB’) advised its members in 1995 to disclose the amount of the undisclosed reserve in the assets from 1996 onwards. Subsequently, in 1997, this reserve should be transferred – within the balance sheet – to the fund for general banking risks, after deducting the related deferred tax asset. The background of this advice was explained by the DNB employee H.F. Everts. He reported that, within the EU, only Austria, Belgium, Germany, Luxembourg, the Netherlands and Spain had introduced the option to underestimate the assets. On the other side of the spectrum, Denmark, Ireland and the UK did not even allow a disclosed fund for general banking risks, in line with the requirements of the IASC. Furthermore, resulting from their increasing internationalisation, a number of Dutch banks started, in 1993, to publish the BIS-ratios, described earlier in this chapter as part of the general reporting developments, effectively applying a type 4 single-track reporting approach. Using these ratios, it was already possible to reasonably estimate the size of undisclosed reserves. Because of all these developments, the Dutch banks had decided not to oppose a general prohibition of such reserves, and Everts expected a number of banks to disclose the amounts even before 1998. The auditors H.C.M. van Damme and M.A. Huiskers observed, in May 1997, that this had actually happened: the Dutch banks had disclosed, in their management report over 1996, the amount of the undervaluation and the intended accounting treatment in 1997.

7.4.2.2 The insurance accounts directive 91/674/EEC

7.4.2.2.1 Drafting the insurance accounts directive

A first draft for the insurance accounts directive was, at the request of the European Commission, prepared by the Groupe d’Etudes and submitted in June 1979. In accordance with its mandate, the working party took into account the existing requirements in all member states, the fourth directive, and the likely requirements of insurance supervisors, without giving advice on the harmonisation of such requirements. Consequently, it decided to use the fourth directive as a basis and to amend it only to the extent that the requirements were not valid or insufficient for insurance companies. The work resulted in proposed model formats for the balance sheet and separate profit and loss accounts for life and non-life insurance business, but in particular in revised valuation rules.

The vast majority of the working party recommended current value as the basic principle for investments, as this was considered to be the most relevant figure for insurance companies. However, the methods to determine the life insurance provisions might justify a cost basis. Therefore, investments should be valued by reference to the purchase price or production cost, current values, or a combination of these methods. If a current value was used, the notes should disclose the purchase price or production cost, and vice versa. Purchase price methods would include an amortised cost basis. The member state option in the fourth directive regarding replacement value was maintained, as were the provisions regulating the related revaluation reserve. However, if changes in the revaluation reserve were directly related to changes in technical provisions, both should be included in the profit and loss account.

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117 Coopers & Lybrand (1997).
119 van Damme and Huiskers (1997).
Regarding the valuation rules for the technical provisions (including deferred acquisition costs), the working party acknowledged that these items were of considerable interest to insurance supervisors and that attempts were being made to harmonise the valuation rules imposed by these regulators. Although this comment on the harmonisation activities of the regulators was not specified, I consider it highly likely that it referred to the work of the Conference of the European Insurance Supervisory Authorities, described in the previous chapter. Because of this work in progress, the valuation rules in the proposal were kept at a rather generic level. The only specific and detailed rule concerned the provision for claims outstanding, where the proposal stated that discounting was prohibited (except for liabilities which were calculated on an actuarial basis, such as disability provisions). On the equalisation provision, setting the rules was left to the member states, if they permitted the use of such a provision. The report made neither reference to the ongoing development of prudential directives (presented later in this chapter when discussing the Dutch prudential reporting developments), nor to a single-track reporting approach.

7.4.2.2.2 The adoption of the insurance accounts directive

In 1991, the European Commission published a directive on the annual accounts and consolidated accounts of insurance undertakings. A first proposal, to a large extent based on the draft of the Groupe d’Etudes, was issued in 1987, followed by a revised proposal in 1989. The purpose of the insurance accounts directive (henceforth, the ‘IAD’) was to complement the fourth and the seventh directives, regulating the issues of specific relevance to all life and non-life insurance companies.

As under the fourth directive, the IAD prescribed specific models for the balance sheet and the profit and loss account. They are presented in annex 9. The balance sheet showed a split of the investments by nature and a separate line item for investments for the benefit of life insurance policyholders who bore the investment risks. The technical provisions were also split by nature, and there was a separate line for technical provisions for life insurance policies where the investment risk was borne by the policyholders. All technical provisions showed the gross amount with a visible deduction of the reinsurers’ share; however, the member states could require or permit the reinsurance amounts to be shown as assets.

The profit and loss account was divided in three parts: the technical account for non-life insurance business, the technical account for life insurance business, and the non-technical account. The first two showed the amounts specifically related to the underwriting of insurance contracts, such as premiums, claims and expenses, and ended with a net result. The non-technical account started with the net results of the two technical accounts, and presented details on the investment income and charges (including the amount allocated to or from the technical accounts), extraordinary items, tax, and the net result.

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121 See section 6.6.4.1.
125 See tables A9.31 to A9.35.
The basic valuation principle for investments was based on the purchase price or production cost. However, the member states could require or permit investments to be measured on their current value, which generally meant the market value. Investments for the benefit of life insurance policyholders who bore the investment risk should always be measured at current value. For each category of investment defined in the layout of the balance sheet, the same valuation method should be applied. In case of the use of current value, the provisions in the fourth directive regarding the revaluation reserve were applicable. The member states could permit unrealised gains and losses to be included in the profit and loss account, in full or in part. In any event, full inclusion was required for investments for the benefit of life insurance policyholders who bore the investment risk. If debt securities and other fixed-income securities were not measured at current value, they should be shown at purchase price. However, the member states could require or permit them to be shown at the amount repayable at maturity, and the directive introduced a number of member state options to account for the difference between the purchase price and the amount repayable at maturity. Such options were also available in respect of the difference between the book value and the proceeds of sold instruments.

Regarding the technical provisions, the general principle was that the amounts should at all times be such that the insurer could meet any liabilities arising out of insurance contracts as far as could reasonably be foreseen, including the related claims handling expenses. The directive also provided definitions for the different kinds of technical provisions. But, as was the case for the investments, it also introduced a number of member state options, for instance on the treatment of acquisition costs, the discounting of the provision for claims outstanding, the fund system, and the introduction of a fund for future appropriations. Except in respect of acquisition costs, the directive did not provide further details on the accounting policies for the technical provisions, neither directly, nor by reference to the prudential directives discussed later in this chapter when presenting their implementation in the Dutch prudential reporting requirements: there was no discussion at all on a single-track reporting approach. For acquisition costs, the directive offered three options, which are discussed as part of the RJ guideline on the annual accounts of insurance companies, described later in this section.

For consolidated accounts, the seventh directive was applicable, with some exceptions: if a transaction within the group was concluded under normal market conditions and it affected or established policyholder rights, elimination was not required. Furthermore, if the measurement of the insurance liabilities of foreign subsidiaries was based on mandatory local provisions, the requirement to apply uniform accounting principles was not applicable to those liabilities. The same applied to assets, the value changes of which affected or established policyholder rights.

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126 Four issues of the World Accounting Report (1987, 1989a, 1989b, and 1989c) mentioned that, in particular, the proposals on the valuation rules for investments had created heated debates in the Economic and Social Committee, the Legal Affairs Committee and, ultimately, in the European Parliament as a whole. These debates focused on the use or disclosure of current values, where distinct differences in views between the member states came to the surface. As usual in developing European directives, the solution was the introduction of member state options regarding valuation methods, although the requirement to disclose the alternative values of investments was maintained.

127 As is discussed in section 6.5.3.1, the introduction of this fund in the directive was particularly important for the UK.
These exceptions of the generic accounting principles were included at the request of the European insurers through their industry organisation the CEA.\textsuperscript{128}

An analysis by KPMG in 1999 showed that the fourth, seventh and insurance accounts directives included in total 132 member state options, and that almost every option was exercised by at least one member state.\textsuperscript{129} There were three types of options, focusing on the right of the member states to require, permit, and require and permit a certain (alternative) accounting treatment. The differences concerned in particular deferred acquisition cost, discounting of the provision for claims outstanding, and the valuation of investments. The member states exercised an average of 30 options, mostly in the UK (41), directly followed by the Netherlands (39). Those relevant for this dissertation are discussed in the sections describing the implementation of the directives in these countries, including whether these countries had decided to limit the alternatives in the directives and whether options were passed on to the reporting companies.

In my opinion, this overview shows that, given the large number of member state options and the high level of utilisation of these options, comparability of the financial statements of European insurers was, by default, impossible. Furthermore, the directive had, in my view, no direct impact on the prevailing Dutch single-track reporting approach because of the options, since the resulting flexibility enabled the member states to maintain or abolish this approach if they wanted to do so.

\textit{Comments on the (draft) directive}

During the development of the directive, the industry actively participated in and influenced the discussions by issuing comment notes through the CEA. It provided such notes in March 1988,\textsuperscript{130} in February 1990,\textsuperscript{131} and in March 1991,\textsuperscript{132} requesting member state options justified by the differences in products, legal and fiscal provisions between the member states, and urging the European Commission not to introduce new rules when practice was already sufficiently harmonised. In March 1991, it also requested the possibility to consolidate banks and insurance companies, which was, according to the European Commission, not allowed under the existing directives.

During the development of the IAD, comments, in particular concerning the technical provisions, were also submitted by the ‘Groupe Consultatif actuarial Européen’ (henceforth, the ‘Groupe Consultati’ or the ‘Groupe’), until 2002 called the ‘Groupe Consultatif des associations d’actuaires des pays des Communauté Européennes’.\textsuperscript{133} This group was created in 1978, combining all actuarial associations in the EEC. Its main task was to respond to requests for advice from the European institutions, particularly the European Commission, on matters of interest to the actuarial profession.

\textsuperscript{128} For more information on this organisation, see section 5.3.1.3.1.
\textsuperscript{129} KPMG (1999).
\textsuperscript{130} CEA (1988).
\textsuperscript{131} CEA (1990a).
\textsuperscript{132} CEA (1991b).
\textsuperscript{133} Groupe Consultatif (2003).
7.4.2.2.3 The Dutch implementation of the insurance accounts directive

The government submitted a bill to implement the directive in the civil code in November 1992.\textsuperscript{134} As had been the case when implementing the previous accounting directives, almost all options in the directive were incorporated. The explanatory memorandum clarified some important aspects of the proposals. In respect of the options in the directive, the government proposed to visibly deduct the reinsurers’ shares in the technical provisions in the balance sheet and in the profit and loss account from the gross amounts, and to allow reporting for deferred acquisition costs in all ways mentioned in the directive. Regarding capitalised interest rate rebates, which were usually reported as assets, the government noted that this was not allowed under the directive. For this reason, this item had to be deducted from the technical provisions. Another difference with customary practice was that a movement schedule for investments (apart from land and buildings, and investments in participating interests) was no longer required, as the government did not see sufficient reasons to deviate from the directive. Finally, the government proposed to require depreciation on land and buildings for own use (which assets had to be reported as part of the investments), since it considered these assets to be similar to those used by other companies.

During the debate in Parliament, two amendments were adopted, at the request of the Second Chamber: the requirement to depreciate own buildings was dropped if the amount of allocated rental income was disclosed, and the amount of equity of the combined banking operations and of the combined insurance operations had to be disclosed. None of these two topics were specifically included in the directive. The background of these two amendments was explained by the academic researcher Laurence van Lent.\textsuperscript{135} He noted that the RJ had not been able to reach consensus on an industry proposal to reject the publication of equity per segment. As ING feared that Parliament would introduce this requirement anyway, it had communicated to two influential members of the Second Chamber that it was willing to drop its objections, if they would abolish the proposed requirement of mandatory depreciation of land and buildings, as had been requested for a long time by the Dutch insurance industry.

The amended bill was adopted by the Second Chamber on 1 July 1993.\textsuperscript{136} The approval by the First Chamber followed on 14 September of the same year,\textsuperscript{137} and the act was published one month later.\textsuperscript{138} It was effective immediately, but the financial reporting requirements were only applicable from 1995 onwards. The requirements could be applied by non-insurers, if this contributed to the general principle of ‘sufficient insight’ introduced by the companies’ annual accounts directive in 1970,\textsuperscript{139} and maintained subsequently. This meant that the existing possibility for holding companies of insurance groups to apply the type 12 single-track reporting approach, adopted in the previous period,\textsuperscript{140} was maintained. The models were added to the Decree on the models for annual accounts,\textsuperscript{141} and are presented in annex 9 and hereafter.

\textsuperscript{134} Tweede Kamer (1992b), nr. 22896.
\textsuperscript{135} van Lent (1998).
\textsuperscript{136} Tweede Kamer (1993c), Handelingen 1 juli 1993.
\textsuperscript{137} Eerste Kamer (1993), Handelingen 14 september 1993.
\textsuperscript{138} Minister van Justitie (1993e), Staatsblad 1993, nr. 517.
\textsuperscript{139} See section 6.4.2.1.
\textsuperscript{140} See section 6.4.2.2.3.
\textsuperscript{141} Minister van Justitie (1993f), Staatsblad 1993, nr. 633.
Table 7.4: Decree of 1993 on the models for annual accounts – model N for insurers – balance sheet – assets

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> Intangible assets</td>
<td></td>
</tr>
<tr>
<td>1 Formation expenses and costs related to the issuance of shares</td>
<td></td>
</tr>
<tr>
<td>2 Research and development expenses</td>
<td></td>
</tr>
<tr>
<td>3 Concessions, licences and intellectual property</td>
<td></td>
</tr>
<tr>
<td>4 Goodwill</td>
<td></td>
</tr>
<tr>
<td>5 Prepaid on intangible assets</td>
<td></td>
</tr>
<tr>
<td><strong>B</strong> Investments</td>
<td></td>
</tr>
<tr>
<td>I Land and buildings</td>
<td></td>
</tr>
<tr>
<td>1 For own use</td>
<td></td>
</tr>
<tr>
<td>2 Other land and buildings</td>
<td></td>
</tr>
<tr>
<td>II Investments in group companies and subsidiaries</td>
<td></td>
</tr>
<tr>
<td>1 Shares in group companies</td>
<td></td>
</tr>
<tr>
<td>2 Debt securities issued by, and receivables on group companies</td>
<td></td>
</tr>
<tr>
<td>3 Sundry participating interests</td>
<td></td>
</tr>
<tr>
<td>4 Debt securities issued by, and receivables on participants and companies in which the insurer participates</td>
<td></td>
</tr>
<tr>
<td>III Other financial investments</td>
<td></td>
</tr>
<tr>
<td>1 Shares, participation titles and other non-fixed-interest securities</td>
<td></td>
</tr>
<tr>
<td>2 Debt securities and other fixed-interest securities</td>
<td></td>
</tr>
<tr>
<td>3 Participations in investment pools</td>
<td></td>
</tr>
<tr>
<td>4 Loans guaranteed by mortgages</td>
<td></td>
</tr>
<tr>
<td>5 Other loans</td>
<td></td>
</tr>
<tr>
<td>6 Deposits with credit institutions</td>
<td></td>
</tr>
<tr>
<td>7 Sundry financial investments</td>
<td></td>
</tr>
<tr>
<td>IV Deposits with ceding undertakings</td>
<td></td>
</tr>
<tr>
<td><strong>C</strong> Investments for the benefit of life insurance policyholders who bear the investment risk</td>
<td></td>
</tr>
<tr>
<td><strong>D</strong> Debtors</td>
<td></td>
</tr>
<tr>
<td>I Debtors arising out of direct insurance operations</td>
<td></td>
</tr>
<tr>
<td>1 Policyholders</td>
<td></td>
</tr>
<tr>
<td>2 Intermediaries</td>
<td></td>
</tr>
<tr>
<td>II Debtors arising out of reinsurance operations</td>
<td></td>
</tr>
<tr>
<td>III Other debtors</td>
<td></td>
</tr>
<tr>
<td>IV Subscribed capital called but not paid</td>
<td></td>
</tr>
<tr>
<td><strong>E</strong> Other assets</td>
<td></td>
</tr>
<tr>
<td>I Tangible assets and stocks</td>
<td></td>
</tr>
<tr>
<td>II Cash at bank and in hand</td>
<td></td>
</tr>
<tr>
<td>III Sundry assets</td>
<td></td>
</tr>
<tr>
<td><strong>F</strong> Prepayments and accrued income</td>
<td></td>
</tr>
<tr>
<td>I Accrued interest and rent</td>
<td></td>
</tr>
<tr>
<td>II Deferred acquisition costs</td>
<td></td>
</tr>
<tr>
<td>III Other prepayments and accrued income</td>
<td></td>
</tr>
<tr>
<td><strong>G</strong> Capital deficit Dutch branch office</td>
<td></td>
</tr>
</tbody>
</table>

Total

Source: table A9.104.
Table 7.5: Decree of 1993 on the models for annual accounts – model N for insurers – balance sheet – liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> Capital and reserves</td>
<td></td>
</tr>
<tr>
<td>I Subscribed capital or equivalent funds</td>
<td></td>
</tr>
<tr>
<td>II Share premium account</td>
<td></td>
</tr>
<tr>
<td>III Revaluation reserve</td>
<td></td>
</tr>
<tr>
<td>IV Legal and statutory reserves</td>
<td></td>
</tr>
<tr>
<td>1 Legal reserves</td>
<td></td>
</tr>
<tr>
<td>2 Statutory reserves</td>
<td></td>
</tr>
<tr>
<td>V Other reserves</td>
<td></td>
</tr>
<tr>
<td>VI Unallocated profit for the year</td>
<td></td>
</tr>
<tr>
<td><strong>B</strong> Subordinated liabilities</td>
<td></td>
</tr>
<tr>
<td>1 Subordinated debts</td>
<td></td>
</tr>
<tr>
<td>2 Subordinated member accounts</td>
<td></td>
</tr>
<tr>
<td><strong>C</strong> Technical provisions</td>
<td></td>
</tr>
<tr>
<td>I Provision for unearned premiums and unexpired risk</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td>II Life insurance provision</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td>III Provision for claims outstanding</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td>IV Provision for bonuses and rebates</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td>V Equalisation provision</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td>VI Other technical provisions</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td><strong>D</strong> Technical provisions for life insurance policies where the investment risk is born by the policyholders</td>
<td></td>
</tr>
<tr>
<td>a Gross amount</td>
<td></td>
</tr>
<tr>
<td>b Reinsurance amount</td>
<td></td>
</tr>
<tr>
<td><strong>E</strong> Provisions</td>
<td></td>
</tr>
<tr>
<td>I Provisions for pensions and similar obligations</td>
<td></td>
</tr>
<tr>
<td>II Provision for tax</td>
<td></td>
</tr>
<tr>
<td>III Other provisions</td>
<td></td>
</tr>
<tr>
<td><strong>F</strong> Deposits received from reinsurers</td>
<td></td>
</tr>
<tr>
<td><strong>G</strong> Creditors</td>
<td></td>
</tr>
<tr>
<td>I Creditors arising out of direct insurance operations</td>
<td></td>
</tr>
<tr>
<td>II Creditors arising out of reinsurance operations</td>
<td></td>
</tr>
<tr>
<td>III Convertible debts</td>
<td></td>
</tr>
<tr>
<td>IV Sundry debts and private debts</td>
<td></td>
</tr>
<tr>
<td>V Amounts owed to credit institutions</td>
<td></td>
</tr>
<tr>
<td>VI Other creditors</td>
<td></td>
</tr>
<tr>
<td><strong>H</strong> Accruals and deferred income</td>
<td></td>
</tr>
<tr>
<td>I Capital surplus Dutch branch office</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.105.
Table 7.6: Decree of 1993 on the models for annual accounts – model O for insurers – profit and loss account – technical account non-life insurance business

| Decree of 1993 on the models for annual accounts – model O for insurers – profit and loss account – technical account non-life insurance business |
|---|---|
| Earned premiums, net of reinsurance |  |
| Gross premiums written |  |
| Outward reinsurance premiums |  |
| Change in the gross provision for unearned premiums and unexpired risks |  |
| Change in the provision for unearned premiums and unexpired risks, reinsurers’ share |  |
| Allocated investment return |  |
| Other technical income, net of reinsurance |  |
| Claims incurred, net of reinsurance |  |
| Claims paid, gross amount |  |
| Claims paid, reinsurers’ share |  |
| Change in the provision for claims outstanding, gross amount |  |
| Change in the provision for claims outstanding, reinsurers’ share |  |
| Changes in other technical provisions, net of reinsurance |  |
| Bonuses and rebates |  |
| Operating expenses |  |
| 1 | Acquisition costs |  |
| 2 | Changes in deferred acquisition costs |  |
| 3 | Administrative and management expenses; depreciation of fixed assets |  |
| 4 | Reinsurance commissions and profit participation |  |
| Other technical charges, net of reinsurance |  |
| Change in the equalisation provision |  |
| Balance on the technical account for non-life insurance business |  |

Source: table A9.106.
Table 7.7: Decree of 1993 on the models for annual accounts – model O for insurers – profit and loss account – technical account life insurance business

<table>
<thead>
<tr>
<th>Earned premiums, net of reinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums written</td>
</tr>
<tr>
<td>Outward reinsurance premiums</td>
</tr>
<tr>
<td>Change in the provision for unearned premiums, net of reinsurance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Income from subsidiaries</td>
</tr>
<tr>
<td>2 Income from sundry investments</td>
</tr>
<tr>
<td>Land and buildings</td>
</tr>
<tr>
<td>Other investments</td>
</tr>
<tr>
<td>3 Value adjustments on investments</td>
</tr>
<tr>
<td>4 Realised gains on investments</td>
</tr>
</tbody>
</table>

| Unrealised gains on investments |
| Other technical income, net of reinsurance |
| Benefits, net of reinsurance |
| Benefits, gross amount |
| Benefits, reinsurers’ share |
| Change in the provision for benefits, gross amount |
| Change in the provision for benefits, reinsurers’ share |

<table>
<thead>
<tr>
<th>Change in other technical provisions, net of reinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurance provision, gross amount</td>
</tr>
<tr>
<td>Life insurance provision, reinsurers’ share</td>
</tr>
<tr>
<td>Other technical provisions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonuses and rebates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
</tr>
<tr>
<td>1 Acquisition costs</td>
</tr>
<tr>
<td>2 Changes in deferred acquisition costs</td>
</tr>
<tr>
<td>3 Administrative and management expenses; depreciation of fixed assets</td>
</tr>
<tr>
<td>4 Reinsurance commissions and profit participation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Investment management charges and interest charges</td>
</tr>
<tr>
<td>2 Value adjustments on investments</td>
</tr>
<tr>
<td>3 Realised losses on investments</td>
</tr>
</tbody>
</table>

| Unrealised losses on investments |
| Other technical charges, net of reinsurance |
| Allocated investment return transferred to the non-technical account |
| Balance on the technical account for life insurance business |

Table 7.8: Decree of 1993 on the models for annual accounts – model O for insurers – profit and loss account – non-technical account

<table>
<thead>
<tr>
<th>Balance on the technical account for non-life insurance business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on the technical account for life insurance business</td>
</tr>
<tr>
<td>Investment income</td>
</tr>
<tr>
<td>1 Income from subsidiaries</td>
</tr>
<tr>
<td>2 Income from sundry investments</td>
</tr>
<tr>
<td>Land and buildings</td>
</tr>
<tr>
<td>Other investments</td>
</tr>
<tr>
<td>3 Value adjustments on investments</td>
</tr>
<tr>
<td>4 Realised gains on investments</td>
</tr>
<tr>
<td>Unrealised gains on investments</td>
</tr>
<tr>
<td>Allocated investment return transferred from the technical account</td>
</tr>
<tr>
<td>Investment charges</td>
</tr>
<tr>
<td>1 Investment management charges and interest charges</td>
</tr>
<tr>
<td>2 Value adjustments on investments</td>
</tr>
<tr>
<td>3 Realised losses on investments</td>
</tr>
<tr>
<td>Allocated investment return transferred to the non-life insurance technical account</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Sundry charges</td>
</tr>
<tr>
<td>Profit or loss on ordinary activities before tax</td>
</tr>
<tr>
<td>Tax on profit or loss on ordinary activities</td>
</tr>
<tr>
<td>Profit or loss on ordinary activities after tax</td>
</tr>
<tr>
<td>1 Extraordinary income</td>
</tr>
<tr>
<td>2 Extraordinary charges</td>
</tr>
<tr>
<td>3 Tax on extraordinary profit or loss</td>
</tr>
<tr>
<td>Extraordinary profit of loss after tax</td>
</tr>
<tr>
<td>Profit or loss after tax</td>
</tr>
</tbody>
</table>

Source: table A9.108.

The amendments in the civil code also resulted in changes in the Decree on the valuation of assets, detailing that, for insurance companies, current value meant market value, and defining such a market value for specific categories of assets.\(^{142}\)

For investments, the act included, in line with the IAD, a number of options, which are presented later in this section as part of the RJ guideline for insurance companies. Regarding the technical provisions, the act introduced two new categories, i.e. the provision for bonuses and rebates, and the equalisation provision. The latter could only be used for credit insurance business. The provision for unearned premiums now also included a provision for unexpired risks, such as the actuarial provision health insurance. The provision for life insurance should include guaranteed amounts for claims and surrenders as well as irrevocable shares of policyholders under profit-sharing arrangements which had to be allocated to individual policyholders; furthermore, future internal and external expenses should be taken into account. Policyholders’ shares in profits which had been determined but not yet allocated to individual policyholders should be reported under the provision for bonuses and rebates. The act did not specify whether amounts that an insurer intended to allocate in the future should be accrued, but did mention that such amounts, if accrued, would be presented as part of the other technical provisions.\(^{143}\) Liabilities in respect of pension schemes for the staff of a life insurer could be included in the life insurance provision, as was already the usual practice in the Netherlands. Future expenses should also be included in the provision for claims outstanding, which – under strict conditions – could be discounted.

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\(^{142}\) Minister van Justitie (1993g), Staatsblad 1993, nr. 636.

\(^{143}\) Such types of profit sharing mechanisms are, in the IASB terminology, called ‘discretionary participation features’: see section 8.4.4.7.
Regarding acquisition costs, all three methods allowed by the IAD were incorporated; they are also discussed as part of the RJ guideline on insurance companies. Specific accounting principles in respect of the technical provisions were not provided in the act, but would be determined by the regulations issued under the prudential acts, described later in this chapter when discussing the Dutch prudential reporting developments. Finally, the act introduced extensive requirements in respect of business and geographical segments.

In contrast to the other topics presented above, the reference to the prudential regulations for the determination of the technical provisions was a clear deviation from the directive itself, and, in my view, shows that prudential reporting requirements still prevailed in the Dutch financial reporting environment for insurers: apparently, the legislator wanted to maintain a single-track reporting approach, dominated by the prudential reporting requirements. It was also an important formal difference with the approach to banks, for which, as is described earlier in this section, the government, ultimately, decided with so many words that the DNB had no role in respect of the legal financial reporting requirements in this industry. This difference was not raised in the parliamentary discussions, and I have not been able to retrieve any explanation from other sources. The only plausible explanation is, in my view, that the legislator was aware of the fact that the DNB had and would continue to have a large influence in practice and that the legislator was, in fact, supportive of a single-track reporting approach in the annual accounts in banks as well. Under this approach, it appears natural that it had decided to apply a similar approach to the other part of the financial services industry, i.e. the insurers.

It was, however, not completely clear from the legislative documents in respect of the implementation of the insurance accounts directive which type of single-track reporting approach was advocated by the Dutch government. Although it seemed to focus on the continuation of the existing type 4 approach for all supervised insurers, the section describing the Dutch prudential reporting developments (presented later in this chapter) makes it clear that these differed, in respect of the reporting requirements, between life and non-life insurance companies. Therefore, the classification of the type(s) of single-track reporting approach(es) is presented in this section.

### 7.4.2.3 The establishment of the ‘Traas committee’

The adoption of the bill to implement the insurance accounts directive was not the end of the developments in financial reporting requirements for insurance companies. In April 1999, the government submitted a memorandum to Parliament, announcing the establishment of an advisory committee to investigate possible improvements in this area as well as in the prudential reporting requirements.\(^{144}\) The primary reason for this step was a promise made in the discussions on the bankruptcy of Vie d’Or, described in the beginning of this chapter. Secondly, the government wanted to improve the transparency on the financial markets. Finally, the internationalisation of the financial markets demanded clear and comparable financial statements. An analysis by Oosenbrug of the contemporary practice of financial reporting by Dutch insurers, carried out at the request of the government, had made it clear that improvements were necessary.\(^{145}\)

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\(^{144}\) Tweede Kamer (1999b), nr. 26489.

\(^{145}\) Oosenbrug (1998).
The government initiative was supported by the Second Chamber, and on 16 November 1999 the so-called ‘Traas committee’ (named after its chair, professor Lou Traas) was created.\textsuperscript{146} As its report was issued in 2001, its findings and recommendations are discussed in the next chapter.\textsuperscript{147}

### 7.4.3 The role and pronouncements of the RJ

#### 7.4.3.1 The role of the RJ and the incorporation of IAS

In the period reviewed in this chapter, the RJ continued to incorporate IAS in its own guidelines whenever this was possible. The growing importance of the IASC made the academics Camfferman and Elbert de With even wonder in 1996 whether or not the RJ should continue its activities in its present form: in their view, it was time to reconsider the future of the RJ and, maybe, to even abolish it completely.\textsuperscript{148} This view was not supported by others, as was evidenced by a response from van der Wel, at the time the chair of the CAJ (the accounting technical committee of the Dutch auditors’ institute NIVRA), who defended the position and activities of the RJ, although he agreed that the standards of the IASC would play a more important role in the future.\textsuperscript{149}

The debate on the future role of the RJ returned in 1997, when the auditor R.G.A. Vergoossen observed that the RJ had decided that it would “take IAS as the starting point” for its future guidelines, instead as “taking them into account”.\textsuperscript{150} In his view, this was the right direction, and he even stated that, according to his analysis, Dutch companies could directly apply IAS without being in conflict with Dutch legislation because of the amount of freedom available in the Dutch financial reporting regime. In practice, however, no company had already made this step. According to Vergoossen, this was explained at a recent seminar, where companies noted that IAS included fewer options and required more disclosures than Dutch GAAP. At the same time, the Dutch employers’ organisation ‘VNO-NCW’ had noted that, in its view, IAS provided the reporting norms for the future.

Comparing Dutch GAAP with IAS in the beginning of 1998, Klaassen confirmed Vergoossen’s observation about increased disclosures, and noted that this applied in particular to segment information and financial instruments.\textsuperscript{151} Only companies already listed in the US would not really be impacted. In respect of valuation principles, the main differences related to goodwill, business combinations, provisions, employee benefits, and, in the future, financial instruments. This analysis was confirmed in a study, carried out in 1998 by the ‘Erasmus University Rotterdam’ on behalf of the VNO-NCW.\textsuperscript{152} It compared IAS with Dutch GAAP and noted direct conflicts with legislation in respect of impairment accounting, financial instruments, goodwill, and depreciation of land and buildings held for investment purposes. Furthermore, IAS limited options included in the Dutch legislation or the guidelines of the RJ in the areas of extraordinary income and charges, goodwill, consolidation exemptions, provisions (including deferred tax liabilities), disinvestments of participating interests, and impairments. Finally, IAS did not allow the recognition of an equalisation account between equity and liabilities.

\textsuperscript{146} Commissie Traas (2001), p. 106.
\textsuperscript{147} See section 8.4.2.1.
\textsuperscript{148} Camfferman and de With (1996).
\textsuperscript{149} van der Wel (1996).
\textsuperscript{150} Vergoossen (1997).
\textsuperscript{151} Klaassen (1998).
\textsuperscript{152} EUR (1998).
The VNO-NCW study also presented the results of an inquiry under 140 listed companies, including 21 with dual listings, regarding the existing and desirable influence of IAS on the Dutch financial reporting requirements. These results showed that:

- About 25% of the companies explicitly took IAS into account. On the other hand, over 60% of the companies with a dual listing considered the influence of US GAAP more important;
- The lack of flexibility under IAS was considered problematic by a large number of companies, although much less by those with a dual listing; and
- A large majority supported the continuing activities of the RJ, but considered that it should develop guidelines which specifically took the Dutch situation into account, and not convert itself to merely a translation bureau of the IASC.

The position of the VNO-NCW at the end of the 1990s was described by its employees E.H.A. Hutten and M.W. Noordzij. They noted that the organisation did not support a separate European standard setter, which had been under discussion for some time as part of the debate on European level, as is described in the next chapter. The main reason was that Dutch companies did not have an interest in ‘international’ IASC-standards and ‘European’ IASC-standards. To address the legal conflicts described in the 1998 report sponsored by the VNO-NCW, they recommended the reintroduction in Dutch legislation of the equivalence regulation, which had been created at the end of 1985, but was withdrawn by the act implementing the seventh directive. Furthermore, given the ongoing discussions on the status of IAS vs. US GAAP, they recommended the RJ to monitor the developments closely, but it should not pre-empt any possible outcome of this debate.

At the end of the period reviewed in this chapter, most standards issued by the IASC were incorporated in the Dutch guidelines. An overview of the remaining differences is presented at the end of the section describing the pronouncements of the RJ.

7.4.3.2 The Dutch implementation of the IASC conceptual framework

One of the results of the strategy to incorporate IAS as much as possible was the publication of a draft framework for the preparation of financial statements in May 1992. It was fully based on the conceptual framework issued by the IASC in April 1989. This framework followed an exposure draft approved in March 1988, and brought together four separate building block projects: objectives of financial statements, liabilities, equity, and assets and expenses.

The purpose of the conceptual framework was to assist the IASC in the development of future IAS and in its review of existing IAS, and in promoting the harmonisation of regulations, standards, and procedures, all relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IAS. It emphasised the basic underlying assumptions (accrual basis and going concern), and identified four principal qualitative characteristics (understandability, relevance, reliability and comparability).

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153 Hutten and Noordzij (1999).
154 See section 8.3.3.2.
155 See section 6.4.2.3.3.
In these areas, the conceptual framework imported some of the basic discussions included in IAS 1. But it also defined assets, liabilities and equity, and income and expenses as changes in assets and/or liabilities other than those relating to contributions from or distributions to equity participants. Finally, the conceptual framework introduced a general recognition criterion: an item that was an asset or a liability should be recognised in the balance sheet if it was probable that any future economic benefit associated with the item would flow to or from the entity, and the item had a cost or value that could be measured reliably. The focus of the definitions was on ‘past events’ and on ‘economic benefits’. Without the two, there could be no assets or liabilities. But even when these two requirements were met, a second test had to be passed before items could be recognised.

In its framework, the IASC identified a wide group of users, including investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public. It presumed that most of their needs were common to all, and designated investors as the primary target group, as it assumed that their needs, as the providers of risk capital, would also satisfy the needs of the other users. This explains, in my view, the increased focus of the IASC on the interest of investors.

According to Hoogendoorn, the publication of the draft framework by the RJ meant, in fact, an official acceptance of the conceptual framework of the IASC as the set of leading principles to develop future financial reporting requirements in the Netherlands. He noted that this could result in conflicts with Dutch legislation, in particular in respect of the prudence and realisation principles. Both were specifically anchored in the law, but played a much less important role in the framework. Overall, he was not sure that the IASC conceptual framework (and, therefore, that of the RJ) was fully compliant with Dutch legislation.

The draft Dutch framework was clarified in February 1996, and, without substantive changes, finalised in September 1996. The RJ followed the IASC in its identification of investors as the primary group of users of financial statements. The Dutch framework resulted in a number of amendments in the guidelines, to remove inconsistencies between the standards and the framework. One of these concerned a new guideline RJ 2.41 for equity, giving more emphasis to the ‘all-inclusive’ concept of income and bringing this guideline as closely as possible in line with the framework. The final guideline replaced ORJ 2.41.2, issued in January 1984, which only dealt with the accounting treatment of legal reserves.

In my view, the descriptions in these first two sections on the role and the conceptual framework of the RJ show not just that the relevance of IAS was increasing for the Dutch financial reporting environment, but also that there was a growing level of acceptance of the IASC and its standards in the Dutch business community, although not without reservations.

160 See section 6.4.3.2.
162 RJ (1996a).
163 RJ (1996b).
164 Ibid, p. 31-33.
165 See section 6.4.3.4.
7.4.3.3 The pronouncements of the RJ and the related IAS

This section describes the pronouncements issued by the RJ in the period. They are organised by selected elements of financial reporting as presented in the scope of this dissertation.\textsuperscript{166}

Given the focus of this dissertation, a draft guideline for insurance companies, issued in April 1997, is described separately.

General topics

In the period reviewed in this chapter, the RJ issued a number of draft and final guidelines, continuing to incorporate, as much as possible, the standards issued by the IASC. Furthermore, it implemented the consequences of the fourth and seventh accounting directives. A full overview of the RJ pronouncements is included in annex 12. This section only presents those developments that introduced new topics or rather fundamental changes, relevant for this dissertation.

ORJ 1.07 covering a new topic was issued in March 1994.\textsuperscript{167} It dealt with the correction of fundamental errors, and was based on revised IAS 8 ‘Net profit or loss for the period, fundamental errors and changes in accounting principles’, issued in July 1993.\textsuperscript{168} This revised standard resulted from the IASC improvements project, described earlier in this chapter when discussing the activities of the IASC. Adjusting the opening amount of retained earnings for fundamental errors (formerly called prior period items, although the contents were more constrained than in the past) and for changes in accounting policies was now the benchmark treatment, with the alternative to include them in the profit and loss account. RJ 1.07 was finalised in September 1996.\textsuperscript{169}

Another release of the RJ was issued in December 1997,\textsuperscript{170} which included a summary of the guidelines of the European Commission on the consequences of the introduction of the euro for the financial statements, issued earlier in that year.\textsuperscript{171} It ruled that, in the 1998 annual accounts, the first conversion rate should be used as the closing rate and the rate to convert comparative figures, and the costs of the conversion should not be classified as extraordinary. The December 1997 release also included an amendment to RJ 2.02, to implement revisions in IAS 16 issued in July 1993 as part of the improvements project.\textsuperscript{172} The revised standard identified cost as the benchmark treatment, with the use of a revalued amount as an alternative.

From 1998 onwards, the RJ changed its publication policy and presented, with some exceptions, all final and draft guidelines in one bound volume, published near the end of the year. All pronouncements were renumbered, reformatted, and, where necessary, restructured, and all new or revised standards were applicable from the next financial year onwards.

The 1998 edition included the partial incorporation of the revised IAS 1.\textsuperscript{173} This standard was now called ‘Presentation of financial statements’, approved in July 1997, and introduced several new issues.\textsuperscript{174}

\textsuperscript{166} See section 2.8.
\textsuperscript{168} IASC (1993a).
\textsuperscript{169} RJ (1996b).
\textsuperscript{170} RJ (1997c).
\textsuperscript{171} European Commission (1997b).
\textsuperscript{172} IASC (1993b). The original IAS 16 is mentioned in section 6.4.3.4.
\textsuperscript{173} RJ (1998).
• A new primary statement showing either all changes in equity, or all changes in equity other than those arising from capital transactions with and distributions to owners;
• An underlying concept called ‘fair presentation and compliance with IAS’.
Financial statements should present fairly the financial position, the performance and the cash flows of a company. The appropriate application of IAS, with additional disclosures when necessary, achieved this in virtually all circumstances;
• However, the revisions also introduced a so-called ‘override’ concept: in the extremely rare circumstances when management concluded that compliance with a requirement in a standard was misleading and that a departure was necessary to achieve a fair presentation, that was allowed provided that specific disclosures were added. These focused on the nature of the departure, its reason and the treatment adopted, and the financial impact; and
• The introduction of mandatory line items to be included in the balance sheet or the profit and loss account, and information to be presented either on the face or in the notes. These line items are presented in annex 9.175

In discussing the revised standard, Harding reported that a number of changes were driven by the wish to increase consistency with the European fourth directive.176 Examples were the ‘true and fair view override’ and the introduction of the requirement to present certain minimum line items in the balance sheet and the profit and loss account (full mandatory formats were unacceptable outside Europe). Therefore, the standard had a distinct European flavour. The Dutch auditor and accounting professor J. W. Schoonderbeek confirmed this, but mentioned that the override was in contradiction to US GAAP and also did not seem to obtain the support of the IOSCO, at the time.177

The implementation of the revised IAS 1 resulted in a large number of minor amendments to existing guidelines of the RJ. However, some differences with IAS 1 remained: under the guidelines, a cash flow statement was mandatory for large companies only, and the statement of movements in equity, although provided, was not designated as a separate primary schedule of the financial statements. In respect of the last issue, it should be kept in mind that an overview of the movements in equity, including the split into its components, was already required for a long time in the Netherlands: it was introduced in 1970 as part of the companies’ annual accounts act.178

The 1999 edition of the bound volume, issued at the end of the year, included a final guideline in respect of a mandatory disclosure of differences in equity between the consolidated financial statements and the unconsolidated parent company accounts (RJ 240), and a number of (revised) draft guidelines.179 Next to these publications, the RJ also issued ORJ 600 for the financial statements of banks.180 These draft guidelines are discussed in the next chapter.181

174 IASC (1997b). The original IAS 1 is described in section 6.4.3.2.
175 See tables A9.15 and A9.16.
176 Harding (1997).
177 Schoonderbeek (1997).
178 See section 6.4.2.1.
179 RJ (1999b).
180 RJ (1999c).
181 See section 8.4.3.2.
Financial instruments
The first RJ pronouncements in respect of financial instruments were included in ORJ 2.03, issued in June 1990,\textsuperscript{182} and complemented in June 1991,\textsuperscript{183} to implement IAS 25 ‘Accounting for investments’. RJ 2.03 was finalised in two parts, in March 1994,\textsuperscript{184} and in September 1996.\textsuperscript{185}

IAS 25 was released in October 1985,\textsuperscript{186} based on exposure draft E26, published in June 1984.\textsuperscript{187} The standard did not cover investments in subsidiaries, investments of life insurance companies, and property, plant and equipment under IAS 16.\textsuperscript{188} It introduced unrestricted multiple options to account for investments, allowing measurement at market value or at the lower of cost and market value. If investments were at market value, changes in this amount had, in some cases, to be reported in the profit and loss account, and in other cases in a revaluation reserve. Sometimes the assessment of a lower market value had to be made per individual instrument, and in other cases on a portfolio basis. In all cases, the carrying amount should be reduced to recognise a decline other than temporary in value, determined for each investment individually.

The flexibility in IAS 25 created the need to develop a comprehensive standard on financial instruments. The first step was exposure draft E40, approved in June 1991.\textsuperscript{189} Insurance contracts and assets covering insurance liabilities were exempted. The focus was on contractual rights and obligations to exchange financial assets, financial liabilities or equity instruments, and on the exchange of risks and rewards. The classification of an instrument in the balance sheet should reflect the substance of the contractual arrangement at initial recognition. This was particularly relevant to differentiate between financial liabilities and equity instruments. The classification of interest, dividends, gains and losses should be consistent with the balance sheet.

At initial recognition, the financial asset or the financial liability should be measured at the amount of cash or the fair value of other assets exchanged. On subsequent measurement, the exposure draft included a benchmark treatment and an allowed alternative treatment, based on management’s intent in entering into the transaction, as well as on the nature of the financial instrument. The categories were investing or financing, hedging, or operating.\textsuperscript{190} Under the benchmark treatment, instruments in the first category should, in general, continue to be measured at the amount initially recognised. However, if certain conditions were met, they could be measured at amortised cost. Impairment was based on the assessment of a recoverable amount, for each individual asset, with reversals if applicable. Financial instruments resulting from operating activities should be remeasured and reported at fair value, with all gains and losses included in the profit and loss account as they arose. The allowed alternative treatment was rather straightforward: all items should be measured at fair value, with gains and losses reported in the profit and loss account.

\textsuperscript{182} RJ (1995), p. 22.
\textsuperscript{183} Ibid, p. 28.
\textsuperscript{184} Ibid, p. 41-46.
\textsuperscript{185} RJ (1996b).
\textsuperscript{186} IASC (1985).
\textsuperscript{187} IASC (1984).
\textsuperscript{188} Since the exclusion focused on life insurance companies only, IAS 25 was applicable to the investments of non-life insurance companies.
\textsuperscript{189} IASC (1991).
\textsuperscript{190} Since the hedging category was only of limited relevance for insurers, it is not discussed.
The IASC received comments from many constituents, including the FEE, which focused in particular on the alignment or conflicts with the European accounting directives, in other words, with European legislation. For industrial and commercial companies, the FEE reported some important issues of non-compliance, in particular in respect of fair value accounting and the recognition of unrealised gains in the profit and loss account.\textsuperscript{191} For banks and other credit institutions, fair value accounting might conflict with the banking accounts directive.\textsuperscript{192} But the most important remark was a firm statement that the FEE was not in favour on the introduction of the alternative measurement treatment, for reasons of comparability and because it was likely to be less prudent. However, as an interim standard the FEE could support the proposals. Finally, the FEE issued a letter focusing exclusively on the impact of the proposals for the insurance industry.\textsuperscript{193} It noted that there would be practical problems as a result of the application of different recognition and measurement rules between the activities of insurers for the benefit of their policyholders and of their shareholders. In summary, it believed there should be a specific exemption for insurance companies (as opposed to the exemption only for the liabilities from insurance contracts and the covering assets, as proposed in E40), and noted that E40 created some important deviations from the insurance accounts directive.

Based on the comments received on the first exposure draft, the IASC decided to amend a number of proposals and to issue a second exposure draft. This was E48, approved in November 1993.\textsuperscript{194} It widened the exemption for insurance companies to all financial assets and financial liabilities arising from insurance and reinsurance contracts, and to the investments held to cover these items. Furthermore, while management’s intent as the primary factor in determining the substance of the transaction was maintained, the classification was changed: it now made a distinction between held for the period to maturity or for the long term, hedging, or for purposes other than hedging when there was no intention to hold to maturity or for the long term. When comparing the explanations and clarifications of this split, it is, in my view, clear that the differences were more in the titles than in the contents of the categories. Finally, if the fair value of certain instruments could not be reliably determined under the allowed alternative treatment, they should be measured at cost.

In 1994, the IASC decided, reluctantly, to split the financial instruments project into two phases.\textsuperscript{195} This was the result of discussions between its members, in which wide ranges of opinion were expressed on the measurement approaches, for example regarding the use of management intent (a view particularly rejected by the UK and the US) and the treatment of unrealised gains in the profit and loss account (rejected by the European standard setters). The members, supported by numerous comment letters on the exposure drafts, ultimately persuaded the IASC to split the project so that it could begin with issuing a relatively non-controversial standard on disclosures. The result was IAS 32 ‘Financial instruments: disclosure and presentation’, approved in March 1995, dealing with definitions, classification between equity and liabilities, presentation, offsetting and disclosures.\textsuperscript{196}

\textsuperscript{191} FEE (1992a).
\textsuperscript{192} FEE (1992b).
\textsuperscript{193} FEE (1993a).
\textsuperscript{194} IASC (1993e).
\textsuperscript{195} Camfferman and Zeff (2007), p. 369-370.
\textsuperscript{196} IASC (1995).
Recognition, derecognition, initial and subsequent measurement were not included in IAS 32. These topics would, ultimately, be included in IAS 39 ‘Financial instruments: recognition and measurement’, discussed in the next chapter.¹⁹⁷ The vast majority of the proposals included in E48 were adopted in IAS 32 without substantive changes. However, regarding (re)insurance contracts a change did occur: the proposed exemptions in E48 were removed and IAS 32 was now fully applicable to insurance companies.

The RJ published ORJ 1.10 to implement IAS 32 in September 1996.¹⁹⁸ The draft was finalised as RJ 290 in 1998, without substantive changes, although the structure was amended considerably for consistency with other chapters.

**Pension liabilities**

In April 1997, the RJ introduced, for the first time, the possibility to use foreign accounting standards in Dutch financial statements, focusing on pension liabilities.¹⁹⁹ It published ORJ 2.53.3, stating that the RJ had decided not to propose major amendments to the existing guidelines, awaiting the finalisation of changes in IAS 19 ‘Accounting for retirement benefits in the financial statements of employers’. As an interim measure, it introduced the possibility to apply the employee benefits standards of the IASC, in UK GAAP or in US GAAP. The draft guideline was, without substantive changes, made final in November 1998 as RJ 252.3.²⁰⁰

IAS 19 was issued in June 1982,²⁰¹ based on exposure draft E16, approved in October 1979.²⁰² Although the AISG had issued a report on the topic in 1977, it did not reach a conclusion because of the existence of a significant number of acceptable actuarial methods.²⁰³ IAS 19 presented several important definitions, in particular the distinction between defined contribution plans and defined benefit plans. The standard focused mainly on the accounting treatment of the latter, which were retirement benefit plans under which amounts to be paid were determinable, usually by reference to employee’s earnings and/or years of service. For these plans, the costs were charged to the profit and loss account systematically over the expected remaining working lives of the employees covered by the plan. In respect of industry plans, which were quite common in the Netherlands, IAS 19 stated that it was appropriate to charge the contributions made by the participating companies to the profit and loss account as the service was rendered, if such plans were not the responsibility of the employer and the cost of such plans were assessed on all companies in the industry concerned. IAS 19 was revised in July 1993 as a result of the improvements project, and retitled into ‘Retirement benefit costs’.²⁰⁴ It introduced guidance on the classification of hybrid pension plans, and of national, state, industry or other multi-employer plans.

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¹⁹⁷ See section 8.4.4.1.
¹⁹⁸ RJ (1996b).
¹⁹⁹ RJ (1997a).
²⁰¹ IASC (1982).
²⁰² IASC (1979c).
²⁰³ AISG (1977).
²⁰⁴ IASC (1993c).
**Tax accounting**

In respect of tax accounting, a final standard RJ 2.53.5 was issued in two parts, in September 1996,\(^{205}\) and in April 1997.\(^{206}\) It was the first final pronouncement in respect of tax accounting and ended a long period of discussions, as is described hereafter. The standard was based on ORJ 2.53.5, issued in May 1992.\(^{207}\) The guideline required that differences between the measurement of assets and liabilities in the annual accounts and in the tax returns were taken fully into account, if they were considered to be temporary.

The standard concluded a development which started in December 1975, when the TO issued an exposure draft VI.I on deferred tax.\(^{208}\) It was the first guidance (although in draft) since more than 10 years, after the publication of the recommendations of the auditing profession in the early 1960s.\(^{209}\) The 1975 exposure draft focused on corporation tax, which was part of profit determination and not of profit appropriation. The TO identified permanent and temporary differences between the net result in the financial statements and in the tax returns.

The consequences of permanent differences should, generally, be included in the profit and loss account in the year of occurrence. However, if the difference was caused by a revaluation, a provision for deferred tax should be formed out of the resulting revaluation reserve or charged to the profit and loss account over the period of utilisation of the related assets. On the other hand, the consequences of temporary differences should always result in deferred tax positions. It was recommended to measure these positions at their nominal amount and not to apply discounting. Deferred tax claims resulting from temporary differences could only be recognised if they could be compensated by deferred tax liabilities, or if there was reasonable certainty that the claims could be realised. Deferred tax should be calculated using the available knowledge of the future rates and regime. Finally, the exposure draft noted that deferred tax in respect of insurer’s fiscal reserves was not covered and would be subject to a future exposure draft.

The 1975 draft was renumbered and reissued in January 1984 as ORJ 2.53.5, and, in August 1989, replaced by a new ORJ 2.53.5. This incorporated IAS 12 ‘Accounting for taxes on income’, approved by the IASC in March 1979.\(^ {210}\) It was based on exposure draft E13, published in October 1977.\(^ {211}\) The standard included much of the discussions and approaches already presented in 1971 in a report issued by the AISG.\(^ {212}\) IAS 12 distinguished between timing differences (differences between taxable income and accounting income, originating in one period and reversing in subsequent periods) and permanent differences (differences that would never reverse).

The standard focused on the accounting treatment of the tax effect of timing differences; the tax effect of permanent differences should be included in the profit and loss account in the year of occurrence. IAS 12 required using either the deferral or the liability method. Under the first, current tax rates were used; under the second, deferred tax balances were adjusted for (expected future) changes in the tax rate. In case of a debit deferred tax balance or tax losses carried-forward, no asset should be recognised unless there was a reasonable expectation of realisation.

\(^{205}\) RJ (1996b).
\(^{206}\) RJ (1997a).
\(^{208}\) TO (1975b).
\(^{209}\) See section 5.3.4.3.1.
\(^{210}\) IASC (1979a).
\(^{211}\) IASC (1977c).
\(^{212}\) AISG (1971).
The tax relating to an item that was charged or credited to equity (such as revaluation differences on assets) should be accounted for in the same manner as the underlying item. Tax payable on undistributed profits of subsidiaries should be accrued, unless it was reasonable to assume that those profits would not be distributed or that a distribution would not give rise to a tax liability. Discounting was not discussed. The 1989 ORJ was never finalised, and replaced by the new ORJ 2.53.5, issued in May 1992.

In 1998, i.e. very soon after RJ 2.53.5 had been published, a new draft guideline ORJ 272 was issued in respect of tax accounting. It was finalised as RJ 272 one year later. It was based on the revised IAS 12, published in 1996. The main amendment in IAS 12 was the introduction of a mandatory balance sheet liability approach, under which expected tax rates were applied to temporary differences, not to timing differences. Temporary differences were differences between the tax base of assets and liabilities and the carrying amounts (i.e. an asset-liability approach), while timing differences were differences between taxable profit and accounting profit (i.e. an income approach). Taxable temporary differences always resulted in deferred tax liabilities, while deductible temporary differences always resulted in deferred tax assets. Discounting was not allowed. In respect of ORJ 272, the RJ expected that the changes would not impact the existing accounting practices. Regarding measurement, two important differences remained between IAS and the RJ guidelines: a deferred tax liability in respect of a revaluation reserve was required under IAS 12 but only recommended by the RJ, and while IAS 12 prohibited discounting of deferred tax liabilities, the RJ allowed it.

Consolidation, business combinations and goodwill accounting
The consolidation guidelines of the RJ were included in ORJ 2.03, partially issued in June 1990, and complemented in June 1991. It replaced the draft of December 1984 (recommending the preparation of consolidated accounts including all subsidiaries unless their activities were significantly dissimilar), and incorporated the fourth and seventh accounting directives. The final parts of standard RJ 2.03 were published in March 1994, and in September 1996. They were based on IAS 27 ‘Consolidated financial statements and accounting for investments in subsidiaries’, approved in June 1988. It replaced part of IAS 3, described in the previous chapter. The standard was based on exposure draft E30, issued in March 1987. Much material in IAS 3 was carried over to IAS 27. However, some important changes were made in respect of the definition of control, the consolidation scope, and accounting for subsidiaries in the separate financial statements (i.e. non-consolidated) of a parent company. The previous exclusion from consolidation for subsidiaries with dissimilar business activities was dropped. According to the IASC, the issue could be solved by disclosing additional segment information. If subsidiaries were (still) excluded from consolidation, they should be accounted in accordance with IAS 25, i.e. as financial instruments.

214 RJ (1999b).
217 Ibid, p. 28.
219 RJ (1996b).
221 See section 6.4.3.2.
In the parent company’s separate financial statements, subsidiaries should be either accounted under the equity method, or carried at cost or revalued amounts under the accounting policy of IAS 25.

Another draft guideline was ORJ 2.03.7 regarding pooling of interests accounting, which was published in April 1997.\(^{223}\) It was converted into RJ 214.7 in November 1998.\(^{224}\) This guideline concluded another longstanding debate in the Dutch accounting standard setting environment, which had started in December 1975 with the issuance by the TO of a draft of considered views II.a.3 regarding the acquisition and divestment of participating interests.\(^{225}\) The TO noted that the customary practice to account for business combinations was to measure the assets and liabilities, at acquisition date, under the accounting principles applied by the acquiring company, and to capitalise identifiable intangible assets. Any difference between the balance of these amounts and the acquisition price was labelled as goodwill. Although the TO considered it not unacceptable to charge goodwill directly to the reserves, it preferred a system under which goodwill was capitalised, systematically amortised, and tested for impairment. Non-amortisation was rejected. Any divestment results on participating interests should be reported in the profit and loss account, unless goodwill on the divested interest had been charged to the reserves: in that case, any gains should be credited to the reserves.

This 1975 draft was considerably amended in June 1981.\(^{226}\) It introduced a distinction between an acquisition and a combination of interests, also called pooling of interests. In an acquisition, the acquisition price was determined by the cash consideration paid or the value of the shares issued by the acquirer. All assets and liabilities had, at the moment of acquisition, to be determined at their intrinsic value, in which reorganisation provisions and the like had to be taken into account. Any remaining positive goodwill could be capitalised and systematically amortised with an impairment test, charged directly to the profit and loss account, or charged directly to the reserves. Post-acquisition results were determined by the acquisition date. In a pooling of interests, which was only possible in case of an exchange of shares between equal partners, no goodwill could be accounted for. Assets and liabilities should be valued on the same accounting principles at the beginning of the year, and any resulting adjustments included in reserves. The interest in the acquired company had to be reported at its intrinsic value at the beginning of the year, and any difference should be considered as share premium. The results should be combined from the same date onwards. As before, gains and losses on divestments had to be included in the profit and loss account. However, if during the last five years the related goodwill on an acquisition had been charged to the reserves, any gains should be credited to the reserves.

The April 1997 ORJ 2.03.7 incorporated the last parts of IAS 22 ‘Accounting for business combinations’, which had already been partially covered by RJ 2.03. This standard was approved in June 1983,\(^{227}\) and was based on exposure draft E22, issued in March 1981.\(^{228}\)

\(^{223}\) RJ (1997a).
\(^{224}\) RJ (1998).
\(^{225}\) TO (1975b).
\(^{226}\) TO (1981b).
\(^{227}\) IASC (1983).
\(^{228}\) IASC (1981a).
Accounting for business combinations (and goodwill) had been one of the topics the AISG had reported on in 1975, when it concluded that goodwill should be accounted for as an intangible asset and amortised on a systematic basis over its estimated life.\(^{229}\) The basic principle of IAS 22 was that every business combination should be accounted for under the purchase method, except in the rare circumstances when it was deemed to be a uniting of interests. The latter was the case only in specified circumstances. When a business combination was deemed to be a uniting of interests, the pooling of interests method might be used. Goodwill was capitalised and recognised in the profit and loss account on an amortised basis, or charged immediately against equity.

The next publication of the RJ on goodwill accounting was a short discussion memorandum, issued in May 1999.\(^{230}\) It was a first step to incorporate revised IAS 22, issued in September 1998, in its guidelines.\(^{231}\) This revised standard included extended guidance, and amended an earlier revised version, titled ‘Business combinations’ and issued in July 1993.\(^{232}\) It resulted from the improvements project and stated that one of the conditions to apply the pooling of interests method was that an acquirer could not be identified, which was expected to be very rare. Goodwill could no longer be charged to the reserves, but had to be capitalised and amortised. Regarding goodwill impairment, it introduced possibilities to adjust goodwill until the end of one reporting year after the acquisition and a prohibition on the reversal of write-downs. The RJ discussion memorandum noted that the most important difference between this standard and the prevailing Dutch financial reporting requirements concerned goodwill: under IAS 22, it should be capitalised and depreciated, while Dutch GAAP allowed its deduction from the reserves. The Netherlands found itself now in an isolated position after the introduction of a new standard in the UK (mentioned later in this chapter as part of the US and UK reporting developments), which now also prohibited a direct charge to the reserves. For these reasons, the RJ considered following the requirements of IAS 22, with transitional provisions, and had decided to issue the memorandum to stimulate the Dutch debate.

Regarding this memorandum, Vergoossen observed that there was, effectively, no need to issue it.\(^{233}\) It was the RJ itself noting that the Netherlands was now in an isolated position. Therefore, he considered the proposal to follow the same approach as the IASC for the Netherlands completely appropriate. On the other hand, Beckman stated that the RJ was not authorised to prohibit the existing treatment of goodwill.\(^{234}\) Since the RJ was not part of the legislative system, its guidelines were not binding, and taking a position against a method which was explicitly allowed by the legislator created unnecessary confusion. According to T. Noteboom and E.J.W.M. Razenberg, two auditors, the responses to the memorandum clarified that Beckman was not the only opponent of the proposals.\(^{235}\) But Knoops and C.E. de Bruijn reported, based on the results of a survey under 138 Dutch companies (including those listed on the Amsterdam Stock Exchange), a different opinion in the business community.\(^{236}\) They noted that, in 1998, 57% of the respondents charged goodwill directly to the reserves, but that 33% capitalised and depreciated the item.

\(^{229}\) AISG (1975).
\(^{230}\) RJ (1999a).
\(^{231}\) IASC (1998f).
\(^{232}\) IASC (1993d).
\(^{233}\) Vergoossen (1999b).
\(^{234}\) Beckman (1999).
\(^{235}\) Noteboom and Razenberg (2000).
\(^{236}\) Knoops and de Bruijn (2000).
Of those companies that were listed only in Amsterdam, 86% charged goodwill directly to the reserves. However, a vast majority of all respondents supported the proposals of the RJ for the future, which, in their view, should be applicable to all companies. According to Knoops and de Bruijn, this result confirmed the opinion of the RJ that it was no longer considered an acceptable accounting policy to charge goodwill directly to the reserves. The outcome of the goodwill debate in the RJ is presented in the next chapter.237

**Segment reporting**

ORJ 2.71.6 on segment reporting was issued as part of the June 1991 release.238 A final guideline on this topic was published in May 1992.239 This completed a long history of debates. The first steps were taken in December 1976 by the TO, followed by the RJ in December 1984 and August 1989. The main topic had been how to meet the legislative requirements to present a breakdown of a number of items, including the operating result, “in accordance with acceptable industry standards”. In the end, it was decided to limit the segmentation requirements to revenues, and to only recommend (and not require) the disclosure of the operating results by segment. Segmentation of revenues was completely in line with IAS 14 ‘Reporting financial information by segment’, approved in March 1981.240 It was based on exposure draft E15, issued in October 1979.241 The standard applied mainly to companies whose securities were publicly traded. In line with the recommendations from the AISG in 1972, the companies within the scope of the standard should report specific financial information (in particular revenue, results, and assets) for the industry segments and the geographical segments which were significant to the company.242

In 1998, the RJ issued ORJ 350,243 to align with the 1997 version of IAS 14.244 The draft guideline was finalised as RJ 350 in 1999.245 Revised IAS 14 introduced the requirement for a company to look at its internal structure and reporting system for the purpose of identifying its business and geographical segments. Furthermore, the standard introduced a primary basis and a secondary basis of segmentation, with considerably less information to be disclosed for secondary segments than for primary segments. Finally, the segment accounting policies should be similar to those used to prepare the (consolidated) financial statements. RJ 350 required this expanded information for listed companies, and recommended it for non-listed companies.

**The statement of source and application of funds/cash flows**

Another topic which was long outstanding concerned the statement of source and application of funds. It started with a draft issued by the TO in September 1979, followed by ORJs in January and in December 1984.246 In these pronouncements, the RJ recommended the inclusion of such a statement in the annual accounts.

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237 See section 8.4.3.2.
239 Ibid, p. 31-33.
240 IASC (1981b).
241 IASC (1979b).
242 AISG (1972a).
244 IASC (1997c).
245 RJ (1999b).
246 RJ (1984a). The only difference between the January and the December draft concerned renumbering.
Applying the draft guideline would ensure compliance with IAS 7 ‘Statement of changes in financial position’, approved in July 1977.\textsuperscript{247} This standard followed up exposure draft E7, which was issued in March 1976.\textsuperscript{248} The topic of the funds statement had also been discussed in a publication issued in 1973 by the AISG, but this group had limited itself to a statement that “it endorsed the desirability and commended its adoption as an internationally recognised financial reporting practice.”\textsuperscript{249} IAS 7 dealt with the presentation of a statement which summarised the resources made available to finance the activities of a company and the uses to which such resources had been put. It was often presented with the balance sheet and the profit and loss account as an integral part of the financial statements. IAS 7 made the statement mandatory for each period for which the profit and loss account was presented.

In November 1993, the RJ issued ORJ 4.20, which did not anymore focus on the statement of source and application of funds, but on cash flow statements.\textsuperscript{250} This was to align with revised IAS 7 ‘Cash flow statements’, approved in October 1992.\textsuperscript{251} The focus of the revised standard was changed from presenting changes in the financial position of a company to real cash flows and the flexibility in the old standard was replaced by a much more rigorous approach.\textsuperscript{252} The revised IAS 7 required all companies to prepare a cash flow statement as an integral part of the financial statements. They should report cash flows during the period classified by operating, investing and financing activities. To report the cash flows from operating activities, a company could use either the direct method, whereby major classes of gross cash receipts and gross cash payments were disclosed, or the indirect method, whereby net profit or loss was adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals, and items of income of expense associated with investing or financing cash flows. The ORJ was finalised in February 1996, with only one amendment: the final guideline included a slight preference for the application of the direct method.\textsuperscript{253} Furthermore, it recommended a number of reconciliations between the balance sheet, the profit and loss account and the cash flow statement, as well as specific notes to this statement.

**The RJ-IAS alignment at the end of 1999**

At the end of the period, the RJ presented the following overview:\textsuperscript{254}

- IAS 1 to 39 were incorporated in (draft) guidelines for most parts, only the late 1990s amendments of the standards were outstanding;
- In respect of IAS 1 (revised 1997), neither the requirement to present the movement schedule of equity as a separate component of the financial statements, nor the need to disclose deviations from the guidelines were incorporated;
- In contrast to IAS 7 (revised 1992), cash flow statements were only mandatory for large companies;

\textsuperscript{247} IASC (1977b).
\textsuperscript{248} IASC (1976a).
\textsuperscript{249} Camfferman and Zeff (2007), p. 33.
\textsuperscript{251} IASC (1992).
\textsuperscript{253} RJ (1996a).
\textsuperscript{254} RJ (1999b).
• Not all requirements in IAS 8 (revised 1993) were incorporated. In particular, the RJ had a wider definition of elements which could be accounted directly in equity and a more extensive definition of extraordinary charges and income;
• In contrast to IAS 10 (reformatted in 1994), the RJ allowed, in line with the civil code, value adjustments after the balance sheet date in respect of current assets to be recognised;
• The requirement in IAS 12 (revised 1996) to recognise deferred tax on the revaluation reserve was recommended, not required. Additionally, while IAS 12 prohibited discounting of deferred tax assets and liabilities, the RJ allowed it;
• The RJ had not fully implemented IAS 25 (reformatted in 1994). It allowed value adjustments and the determination of the minimum amount of a revaluation reserve on a portfolio basis, where IAS 25 required an instrument-by-instrument approach;
• Another difference concerned IAS 27 (reformatted in 1994). Under this standard, all subsidiaries should be consolidated and, at initial recognition, goodwill in the unconsolidated balance sheet should be added to the equity value of the acquired company and amortised. Under the RJ guidelines, consolidation should not occur if this would result in insufficient insight under the civil code, and goodwill was treated at a separate component, which could be subject to different accounting principles than was required by IAS 27; and
• Some detailed requirements differed from those in IAS 32.

Overall, this description shows, in my view, that there was, as is noted before, a (very) significant influence of the IASC on the Dutch financial reporting requirements. Generally, the standards were, although often with significant delays, incorporated in the Dutch guidelines without significant changes; only in case of conflicts with legislation, such as regarding goodwill, IAS was not followed. The increasing focus of the IASC on the information needs of investors, following the application of its conceptual framework, therefore also created, in my view, a gradual shift in the RJ guidelines, despite the fact that the legislation continued to focus on a wide group of users.

The overview also shows that the RJ guidelines were, in some respects, less stringent or more liberal than those of the IASC. In this sense, I concur with the analyses of Vergoossen, Klaassen and the Erasmus University presented earlier in this chapter when discussing the role of the RJ and the incorporation of IAS. Whether or not Dutch GAAP was more or less prudent than IAS is, in my view, difficult to say. While, on the one hand, impairment accounting for investments and deferred tax accounting under IAS was more prudent, this regime required the capitalisation and amortisation of goodwill, which can be considered as less prudent than charging the involved amount to the reserves as was allowed under Dutch GAAP.

7.4.3.4 The RJ guideline for insurance companies
As is described in the previous chapter, there was no (draft) guideline for the financial statements of insurance companies at the end of the 1980s. As part of the additional work requested by the RJ in 1987, the CAJ prepared, at the end of 1988, of an overview of accounting principles of Dutch insurance companies.

255 See annex 12.
256 See section 6.4.3.4.
Shortly after, the CAJ discussed the ruling of the Enterprise Chamber on the accounting policies of AEGON described in the previous chapter, and compared the outcome with the accounting policies of other insurers; the conclusion was that no generic principles could be distilled. The CAJ decided in the beginning of 1989 that it was not wise to develop a Dutch guideline for insurance companies when there was no European directive yet; it was, however, desirable to start a study.

This work resulted, ultimately, in ORJ 3.23 published in April 1997, for which I was the project leader. From this role, I remember that the draft had been prepared by the insurance subcommittee of the CAJ, assisted by an actuary and representatives of the insurance industry. The Insurance Chamber had been invited to participate but declined, since it did not consider it to be part of its task to formulate financial reporting requirements. The ORJ followed the structure of the legislation that implemented the insurance accounts directive, described earlier in this section, and provided only guidance for those areas where the general pronouncements of the RJ would be not applicable or overruled by the law. Therefore, it focused mainly on the investments and the technical provisions of insurers.

ORJ 3.23 included an overview of the applicable legislation, both for financial and prudential reporting purposes. It explained the linkage between these requirements: on the one hand, the civil code stated that the prudential returns could be designated as the financial statements, if all requirements of the civil code were met; and, on the other hand, as is described later in this chapter when presenting the Dutch prudential reporting developments, the 1993 mandatory guidance notes from the Insurance Chamber on the prudential returns stated that they had to comply with the requirements of the civil code. Furthermore, the models for the balance sheet and the profit and loss account were identical, and the ‘Besluit technische voorzieningen verzekeringsbedrijf 1994’ (the ‘Decree on the technical provisions of insurance business 1994’) provided further details regarding the generic requirements of the civil code on these balance sheet items. Because of this interdependence between the two sets of statements, the draft guideline recommended the financial statements to be prepared in such a way that the requirements regarding the prudential returns were also met, and, in case there would be two separate sets, identical accounting principles to be applied.

In other words, the ORJ recommended a clear and straightforward single-track reporting approach, without, however, specifying the type of approach. Holding companies of insurance groups were not specifically mentioned, but as the legislation allowed them to apply the regulations for the financial statements of their supervised Dutch insurance subsidiaries, the ORJ applied to these holding companies as well.

Concerning the investments, the ORJ 3.23 described the different permitted accounting principles under the civil code and included several recommendations, which were summarised as follows.

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258 See section 6.7.4.
261 RJ (1997b).
Table 7.9: Accounting principles for investments of insurers in ORJ 3.23

<table>
<thead>
<tr>
<th></th>
<th>Unrealised gains</th>
<th>Unrealised losses</th>
<th>Realised gains</th>
<th>Realised losses</th>
<th>Value adjustment</th>
<th>Value re-adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land and buildings, and shares</strong></td>
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<td></td>
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<tr>
<td>At cost</td>
<td>-</td>
<td>-</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
</tr>
<tr>
<td>At current value</td>
<td>Revaluation reserve or profit/loss</td>
<td>Revaluation reserve (unless insufficient) or profit/loss</td>
<td>Revaluation reserve or profit/loss</td>
<td>Revaluation reserve (unless insufficient) or profit/loss</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Fixed-income investments</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>At cost</td>
<td>-</td>
<td>-</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
</tr>
<tr>
<td>At redemption value</td>
<td>-</td>
<td>-</td>
<td>Amortised in case of exchange transactions, otherwise profit/loss</td>
<td>Amortised in case of exchange transactions, otherwise profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
</tr>
<tr>
<td>At current value</td>
<td>Revaluation reserve or profit/loss</td>
<td>Revaluation reserve (unless insufficient) or profit/loss</td>
<td>Revaluation reserve or profit/loss</td>
<td>Revaluation reserve (unless insufficient) or profit/loss</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investments for the risks of policyholders</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At current value</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>Profit/loss</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Separate accounts at cost or redemption value</td>
<td>The accounting principles depend on the nature of the investments and follow the structure presented above</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>


Regarding land and buildings, the draft guideline noted that depreciation was not required in case of measurement at current value, and recommended identical accounting principles for both buildings for own use and properties held for rental income.

If investments for the risk of the insurer were measured at current value, the following systems to account for unrealised and realised gains and losses were permitted:

- Include unrealised and realised gains and losses in a revaluation reserve; in this case, it was recommended to disclose the unrealised part of this reserve;
- Include unrealised gains and losses in a revaluation reserve, and transfer the realised amounts to the profit and loss account when a sale was made;
- Include unrealised and realised gains and losses in the profit and loss account; and
- Include unrealised and realised gains in a revaluation reserve, and transfer amounts to the profit and loss account in accordance with a fixed methodology (the so-called ‘structural indirect return method’).

In contrast to the first three methods, the last was mentioned neither in the Dutch civil code nor in the European insurance accounts directive. The basic idea behind this method was advocated – to my knowledge for the first time – by Y.O. van der Schaaf-Visser (an auditor, actuary and Fortis employee) in 1994.²⁶² To measure the economic performance of an insurance company, she argued, there should be a consistent measurement basis for assets and liabilities.

²⁶² van der Schaaf-Visser (1994).
For fixed-income investments, that meant, according to van der Schaaf-Visser, using amortised cost, since with this choice both assets and liabilities would be measured at the present value of future cash flows with a locked-in discount rate. In case of the sale of these investments, combined with reinvestment in similar instruments, any realised gains or losses should be amortised over the remaining term of the original instruments. Applying this approach to non-fixed-income investments was, however, less straightforward, since there was no fixed return, which made projections of future cash flows (highly) uncertain. To create consistency in the accounting policies for all investments, van der Schaaf-Visser suggested the inclusion the expected long-term total return on these investments, prudently estimated, in the profit and loss account. For the balance sheet, this should result in an approach under which the book value would gradually increase to the expected future sales value. Since the legislation did not allow this, she would use current value instead, combined with sufficient disclosures to explain the deficiencies of this system and the outcome of her preferred approach. According to van der Tas, the structural indirect return method was first applied by the ‘De Goudse Verzekeringen’, a medium-sized insurer, in its 1994 financial statements. It was, however, AEGON that was the first large insurer to apply it, as is described later in this chapter when presenting the reporting practices of this company.

Under the draft guideline of the RJ, gains and losses in the profit and loss account were recommended to be presented on a net basis per investment category. Regarding all investments, ORJ 3.23 recommended the disclosure of a movement schedule, even though this was not required by the civil code (it was, however, required in the prudential returns). And to improve the comparability of investment returns between insurers, the draft guideline recommended the disclosure of a schedule of total returns, split by investment category and by component of the returns.

Concerning the technical provisions, the main part of the draft guideline reproduced the detailed requirements included in the civil code (which were, as is described earlier in this section, rather general), but in particular in the prudential regulations, described later in this chapter as part of the adoption of the 1993 insurance business supervision act and the related Administrative Decrees. These regulations included the so-called ‘adequacy test’, introduced as part of the 1994 ‘actuarial principles’ described later as part of the Dutch prudential reporting developments. Additionally, the draft guideline provided a number of disclosure and classification recommendations in respect of other technical provisions, but also a requirement to disclose the amount and underlying principles of a catastrophe provision. For such a provision, the presentation of a movement schedule was strongly preferred.

Regarding the other items in the balance sheet, the draft guideline noted that the existing guidelines in respect of deferred tax were applicable to insurance companies and also covered the fiscal equalisation reserve, discussed in the beginning of this chapter. Finally, because the prudential returns should include information regarding the required and available solvency margins (which calculations included any prudential filters), the ORJ recommended disclosure of this information in the financial statements as well.

263 For an explanation of the locked-in rate, see section 2.8.2.3.3.
264 As is explained in the next section, this approach was, basically, the same as included in the 1998 UK SORP on insurance business.
265 van der Tas (1996).
As far as the profit and loss account was concerned, ORJ 3.23 noted that there should be disclosure of the items included in revenue, if this item was used at all. Regarding life insurance business, it clarified that single premiums should include amounts resulting from profit-sharing arrangements which were used to increase the insured capital of policyholders. For claims, it explained that amounts resulting from salvage and subrogation should be deducted. Finally, it noted that acquisition costs, which are, as is explained in chapter 2, important elements of the calculation of the life insurance provisions, could be accounted for in different ways:

- Charged in full to the profit and loss account at the inception of a new contract;
- Partially or fully deducted from the technical provisions; or
- Partially or fully capitalised and amortised. In this case, ORJ 3.23 noted that the amortisation schedule depended on the nature of the related contract, and that an actuarial approach matching the earning of the surcharges in the premiums with the amortisation charges of the deferred acquisition cost was preferable.

ORJ 3.23 further noted that RJ 4.20 (requiring the inclusion of a cash flow statement in the annual accounts) was also applicable to insurance companies, and that a proposal for its format was under development. Finally, the draft guideline explained that reinsurance contracts that transferred only an insignificant insurance risk from the insurer to the reinsurer should be accounted for as financing arrangements, not as insurance contracts. This approach was comparable to that under US GAAP, described in the next section of this chapter.

The draft guideline was discussed by Oosenbrug. He was a former member of the management board of a small non-life insurer, an auditor and an actuary, and, at the time, a professor in economics and financial reporting of insurance companies at the Erasmus University Rotterdam. Although he supported and welcomed a large number of recommendations, he was also critical on some of the proposals:

- The alignment between the financial statements and the prudential returns. In his view, this was not in line with the deliberate rejection by the legislator of a role of the Insurance Chamber in the determination of financial reporting rules, given the different objectives of financial statements and prudential returns, and the proposed alignment could create conflicts with the requirements of a true and fair view. On the other hand, the existing legislative financial reporting requirements, which referred to the prudential requirements, made such alignment inevitable;
- Oosenbrug strongly opposed the structural indirect return method. In his view, it would never produce the legally required insight in the financial position and the result of an insurer;
- He preferred stronger statements in respect of the catastrophe provision: if allowed at all, there should be much more disclosure on the methods applied for the measurement of, the additions to, and the releases from this provision; and

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266 See section 2.8.3.
267 Oosenbrug (1997d).
He rejected the inclusion in premium income of single premiums resulting from profit-sharing arrangements with policyholders, since this resulted, in his view, in accounting for the same amount twice and inflated the revenue amount. In my view, the above description shows that Oosenbrug, in fact, was against the deliberate decision of the legislator to create a link between the financial and the prudential reporting requirements when it implemented the insurance accounts directive. Therefore, although I share his comments about the different objectives and the potential conflicts between the two reporting regimes under a single-track reporting approach, I do not support his rejection of this approach in developing the draft guideline; as he had said himself, it was inevitable under the existing legislation. Furthermore, I also disagree with his rejection of this legislative requirement. Instead, I support a type 8 single-track reporting approach: the financial reporting requirements are leading, and additional information is presented to meet the prudential requirements, including the available and required solvency margins and all related prudent filters.

The only other comment identified in the literature on the draft guideline was provided by the auditor A.J. van der Veer from an international perspective. He compared the proposals with US GAAP for insurers, described in the previous chapter. His conclusion was that the requirements in the US were much stricter and clearer, and he rejected the large number of options in ORJ 3.23. Furthermore, he observed that, in the international environment, US GAAP was the global standard for insurance companies but that the problem was that these pronouncements had been developed with US markets and products in mind. As a result, the standards were not always suitable for other markets and products. In his view, the solution should come from the recently started development of an international accounting standard. The prevailing US reporting approach, under which there was completely separate reporting to investors and to the prudential supervisors, was not mentioned.

ORJ 3.23 was converted into RJ 605 in November 1998. The only significant change was that the overview of total investment returns was required for life insurers, insurance groups and financial conglomerates, and recommended for non-life insurers. For the cash flow statement, an example was included as a new draft guideline, which was finalised one year later. As could be expected, the fact that the proposals were maintained received considerable criticism from Oosenbrug.

In my opinion, this overview shows that almost all options in the insurance accounts directive were maintained and that there was legally (still) a lot of freedom to account for insurers’ investments and their returns, potentially decreasing the comparability of the financial statements of Dutch insurers. Furthermore, it is clear that the prudential requirements were still prevailing.

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268 This occurs because the profit-sharing mechanism is, in one form or the other, related to the results of the insurer, which already include the premiums for the contracts subject to these arrangements.
269 As is explained in section 6.6.4.1, under this approach a number of balance sheet items are adjusted to calculate an adjusted amount of equity (the available solvency margin), which is subsequently compared to the required solvency margin.
271 See sections 6.5.2.5 and 6.5.2.6.
272 See section 8.4.4.7.
274 RJ (1999b).
275 Oosenbrug (1999).
As a result, the existing type 4 single-track reporting approach could continue, although it encountered resistance, in particular from Oosenbrug.

7.4.4 The role of the auditing profession and the stock exchange

7.4.4.1 The role of the auditing profession

During the period reviewed in this chapter, the Dutch auditing profession continued to involve itself in the generic financial and prudential reporting developments, but also in respect of those impacting the insurance industry. A first step occurred in December 1989, when the auditing and actuarial professions held, for the first time, a joint seminar to learn more about each other’s activities and to discuss common issues in respect of the financial statements of insurance companies and pension funds.\(^{276}\) The Dutch actuarial profession was organised through the ‘Actuarieel Genootschap’ (henceforth, the ‘Actuarial Association’ or the ‘AG’). Its history was described by M. Niemeijer, the former managing director of the Nationale.\(^{277}\) He noted that the mathematicians had already established in 1888 a society, called the ‘Vereeniging van Wiskundige Adviseurs’ (the ‘Society of Mathematical Advisors’), which, however, in 1919 also started to cover non-life insurance business, when it renamed itself the ‘Vereeniging voor Verzekeringswetenschap’ (the ‘Society for Insurance science’). This expansion was not satisfactory for a number of life insurance actuaries, who reacted by establishing the ‘Kring van Actuarissen’ (the ‘Actuarial Circle’), focusing exclusively on life insurance business. In addition to this development, in 1925 another society was established, named the ‘Vereeniging voor Levensverzekeringswiskunde’ (the ‘Society for Life insurance mathematics’), which was transformed into the Actuarial Association in 1946.

The 1989 joint seminar resulted, one year later, in the joint establishment of the ‘Platformcommissie NIVRA-AG’, (the ‘platform committee NIVRA-AG’, henceforth, the ‘PCNA’).\(^{278}\) Next to maintaining contacts between the actuarial and auditing organisations and discussing issues of common interest, its tasks were to initiate study groups, organise seminars, trainings or similar events, and contribute to each other’s development. Based on this mandate the PCNA issued several discussion papers and became very active in organising seminars on, among others, financial reporting developments.

A next step occurred in 1997, when the NIVRA decided to restructure its technical committees and established, among others, the ‘Sectorcommissie Verzekeringsmaatschappijen en Pensioenfondsen’ (the ‘Sector committee Insurance companies and Pension funds’, henceforth, the ‘SVP’).\(^{279}\) It was operational as of 1 January 1998 and focused on national and international accounting and auditing issues concerning these two industries. Example were the accounting consequences of the millennium transition, described later in this chapter in the section on the actual reporting practices of the reviewed companies, and the developments at the IASC to develop an accounting standard for insurance contracts, discussed in the next chapter.\(^{280}\)

\(^{276}\) VERA (1989).
\(^{277}\) Niemeijer (1966).
\(^{278}\) De Accountant (1991).
\(^{279}\) Schoen and Tjeeuwissen (2000).
\(^{280}\) See section 8.4.4.7.
7.4.4.2 The role of the stock exchange

In March 1991, an act was adopted to replace the 1985 act on securities trading,\(^{281}\) including its related Administrative Decrees, by a new ‘Wet toezicht effectenverkeer’ (henceforth, the ‘securities transaction supervision act’).\(^{282}\) Regarding securities listed on the Amsterdam Stock Exchange, no changes were introduced. However, the act authorised the Minister of Justice to exercise supervision of the Stock Exchange Association, but also to delegate certain tasks and responsibilities to designated legal entities. The act was, in December of the same year, accompanied by an Administrative Decree, the ‘Besluit toezicht effectenverkeer’ (the ‘Decree on securities transaction supervision’), detailing the prospectus requirements for securities subject to the act.\(^{283}\)

The securities transaction supervision act of 1991 was replaced by the 1995 securities transaction supervision act, implementing new European directives regarding investment entities and securities brokerage services.\(^{284}\) Under the act, the organiser of a stock exchange was responsible for the execution of European directives in respect of securities trading and could receive instructions from the Minister of Finance concerning this task. Furthermore, the Minister could designate an independent organisation as the authority to supervise securities trading and investment entities, on behalf of the government. Near the end of 1995, the Minister designated the Stock Exchange Association as the organiser of a stock exchange under the act.\(^{285}\) Its listing and issuing rules should deal with the implementation of the European directives. To ensure continuing compliance, any intended changes to these rules should be approved by the Minister in advance.

The supervisory authority mentioned in the act was the ‘Stichting Toezicht Effectenverkeer’ (henceforth, the ‘Foundation for the Supervision of Securities transactions’ or the ‘STE’).

In respect of European listing requirements, the only directive published in the period was 94/18/EC, referring to the obligation to publish listing particulars.\(^{286}\) It amended directive 80/390/EEC,\(^{287}\) by allowing, under certain conditions, companies listed in one member state and applying for a listing in another member state, not to publish full listing particulars in that other member state, but only limited information. The new directive was incorporated in the Stock Exchange Regulations.

One specific rule applicable to companies listed at the Amsterdam Stock Exchange as well as in the US was published by the RJ in December 1997.\(^{288}\) It concerned a circular issued by the Stock Exchange Association, in which the association recommended either the inclusion of the reconciliation schedules between Dutch GAAP and US GAAP required by the SEC,\(^{289}\) or a reference to the documents filed at the SEC, making them freely available at request.\(^{290}\) In my view, this is a clear example of focusing on the information needs of investors, avoiding the necessary to collect these reconciliations themselves from the SEC filings.

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\(^{281}\) See section 6.4.5.2.

\(^{282}\) Minister van Justitie (1991a), Staatsblad 1991, nr. 141.

\(^{283}\) Minister van Justitie (1991c), Staatsblad 1991, nr. 750.

\(^{284}\) Minister van Justitie (1995b), Staatscourant 1995, nr. 250.

\(^{285}\) Minister van Financiën (1995), Staatscourant 1995, nr. 250.

\(^{286}\) European Commission (1994a).

\(^{287}\) See section 6.4.5.2.

\(^{288}\) RJ (1997c).

\(^{289}\) See section 6.7.3.

\(^{290}\) As is noted in section 6.7.3, AEGON already complied with this requirement since its listing in 1984, and, as is described later in this chapter when presenting the actual reporting practices, ING followed after its own listing.
7.4.5  Comments and debate on the reporting developments in practice

The findings and comments regarding the actual reporting developments in practice are grouped by the following topics: accounting policy choices and changes therein; business combinations, goodwill accounting, and the sale of participating interests; and other topics relevant for this dissertation. As was the case in the previous period, banks and insurers were, in most cases, excluded from the research on the financial statements of listed companies.

7.4.5.1  Accounting policy choices and changes therein

After the extensive research on changes in accounting policies performed by Hoogendoorn, described in the previous chapter,291 there continued to be interest in this topic. A review of the 1993 financial statements of 111 listed companies by A. de Bos et al. revealed that such changes still occurred, in particular in respect of the measurement basis of assets.292 In line with the findings of Hoogendoorn, the impact was in about half of the cases recognised in equity, and in the other half in the profit and loss account. The reasons for the changes were not always reported, and, if they were, often limited to vague references such as “to align with international financial reporting practice”. Overall, the authors concluded that little had changed over the last few years. On the other hand, in their review of the direct movements in equity in the 1994 annual accounts of 145 listed companies, F. den Adel and Krens found only a limited number of items related to accounting policy changes.293 The most important movements concerned exchange rate differences, stock options programs, revaluations, and transactions in treasury shares. The RJ had expressed a preference to report the impact of accounting policy changes in the opening amount of retained earnings; it is, in my view, clear that if this was applied in practice, the impact was not always sufficiently disclosed.

One of the reasons for accounting policy changes was noted by Vergoossen in 1996.294 He focused on the 1995 financial statements of 17 Dutch companies which were listed in the US, and observed that about one-third made accounting changes to better align their financial reporting practices with US GAAP. The company with the highest number of such changes was AEGON, which reported eight in the period 1985-1994.

7.4.5.2  Business combinations, goodwill accounting, and the sale of participating interests

In 1994, A.B.F. Hilgevoord and Hoogendoorn analysed the methods applied in a number of mergers occurring in the 1980s and the 1990s, including the formation of AEGON, Fortis and ING.295 Although the legal form of these mergers differed, in all cases pooling of interests accounting was applied combined with the harmonisation of accounting policies. The financial impact of this harmonisation was limited and visibly charged to equity at the beginning of the year; comparative figures were adjusted. The accounting treatment of business combinations in the 1997 financial statements was discussed by J.M.J. Blommaert and G.M.H. Mertens.296 They reviewed 45 listed companies and noted that all except one were involved in acquisitions and/or divestments. Of the 41 companies having done acquisitions, only eight capitalised and amortised goodwill: all others charged this item directly to equity.

291 See section 6.4.6.2.
292 de Bos et al. (1994).
295 Hilgevoord and Hoogendoorn (1994).
Regarding goodwill accounting, J.H.N. Kapteijn et al. reviewed 114 financial statements for 1989 and 1990 and found that about 95% of the companies that reported goodwill charged it directly to the reserves.\footnote{Kapteijn et al. (1992).} Goodwill accounting was researched again by Eeftink and Knoops in their review of the 1999 annual accounts of 37 listed companies.\footnote{Eeftink and Knoops (2000).} The findings showed that about two-thirds of the companies still charged goodwill to equity, and one-third capitalised and amortised the item.

Practice regarding the accounting treatment of goodwill in case of subsequent sales of participating interests varied, although two-thirds of the companies did not disclose their accounting policies in this respect. Of the ten companies which were also listed in the US, seven capitalised and amortised goodwill, i.e. considerably more than those which were not listed in this country. Comparing the accounting policies of 1999 with the past, Eeftink and Knoops observed a trend, starting in 1998, of more capitalisation and amortisation of goodwill. Compared to the pronouncements of the RJ, it is clear, in my view, that the RJ had not (yet) been able to address the diversity in practice, partly because its own guidelines were not very strict, and partly because legislation allowed such a variety.

The issues concerning the accounting treatment of realised gains on the sale of participating interests were discussed by the auditor R.L. ter Hoeven.\footnote{ter Hoeven (1992a).} An analysis of the financial statements of 114 listed companies for the years 1989 and 1990 revealed that a large majority of companies presented these gains as extraordinary income. Ter Hoeven linked the inclusion of realised gains in the profit and loss account to the accounting treatment of purchased goodwill, noting that there was a general trend since the mid-1980s to charge these items directly to equity. Blommaert and Mertens reported the accounting treatment of divestments in the 114 annual accounts for 1997 they reviewed.\footnote{Blommaert and Mertens (1998).} In case of divestments, of the 24 companies which charged goodwill directly to the reserves, 14 included realised gains on sale in the profit and loss account: the other 10 did not disclose their accounting policies in this respect. For companies capitalising and amortising goodwill, practices differed. In case goodwill had been reported in the past in the profit and loss account, realised gains on sale were classified by a majority of companies as extraordinary income, but a large minority did not disclose the classification at all. The description above shows, in my view, that there was also still much diversity in practice on the accounting treatment of divestments, and that the RJ guideline to align this treatment with the way in which goodwill was reported was not (always) complied with.

\subsection*{7.4.5.3 Other topics relevant for this dissertation}

Next to the topics described before, comments on the actual accounting practices were published in respect of provisions, extraordinary gains and losses, segment information and the cash flow statement.

The biannual research report issued by the NIVRA noted that, in the 1990 financial statements of listed companies, the accounting policies regarding, among others, deferred tax provisions and pension provisions were not always disclosed.\footnote{NIVRA (1992).} These findings were confirmed by C.M.T. Boonen and van der Wal in their review of 115 financial statements for 1991.\footnote{Boonen and van der Wal (1993).}
C.P.M. Overboom and Vergoossen reported that the problems of reporting provisions in a transparent way were not new. Their empirical review of the financial statements of 82 listed companies over the period 1988-1994 revealed that the provisions were mostly related to deferred tax, pensions and early retirement, but also to restructurings and reorganisations.

Regarding extraordinary gains and losses, ter Hoeven reported that the financial statements of 114 listed companies for 1989 and 1990 showed a significant number of these items. Of the large companies, they were reported by 58% of the companies in 1989 and by 42% in 1990. However, only about one-third of the companies disclosed the criteria to distinguish between ordinary and extraordinary results. Another third limited itself to the classification “non-ordinary”, and the remainder used expressions such as “incidental” or “non-characteristic”. The largest items in both years concerned gains and losses from the sale of participating interests and charges related to reorganisations. Another analysis over 1990 was presented in the biannual research report issued by the NIVRA. It observed that a number of companies included in extraordinary gains and losses items that were clearly part of operating results, with the probably reason being the infrequency of occurrence of the items. H.C. Dekker noted that the most frequent items in 1991 referred to realised gains on the sale of participating interests, reorganisation expenses, and realised gains on the sale of land and buildings. On a large number of items, he expressed similar doubts as the NIVRA researchers had presented before. In my view, it seems, as is the case for the other topics discussed in this section, that full compliance with the legal requirements and RJ guidelines was, at least, doubtful.

Concerning segment information included in the 1994 financial statements of listed companies, Knoops and D.H. van Offeren noted that about 60% of the 145 companies provided information on business segments, and almost 85% on geographical segments. The information was mostly limited to revenues, although a small number of companies also presented operating results and some other key items. A review of the 1995 financial statements of 42 companies listed at the Amsterdam Stock Exchange by Knoops and Dijksma revealed that almost all reported revenues by geographical segment; however, only about 25% also disclosed operational results by segment. This was different for business segments: of the 39 companies which reported revenues on this basis, operational results were also presented by 24 of them. A large number of companies also disclosed additional segment information but in the directors’ report. In respect of this topic, I conclude that there seemed to be a high level of compliance with the RJ guidelines.

Finally, in respect of cash flow statements, Dijksma reviewed the 1994 annual accounts of listed companies and observed that this guideline was applied by 55% of the 145 reviewed companies. Another 39% provided a statement of source and application of funds, and only 6% provided neither. Almost 75% of the companies presented it as the third primary schedule, while almost all others included it in the notes. In case of a cash flow statement, about 90% used the indirect method. On these topics, I observe a high level of compliance with the guidelines.

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303 Overboom and Vergoossen (1997).
304 ter Hoeven (1992b).
308 Knoops and Dijksma (1996).
Overall, these research findings indicate, in my view, that listed Dutch companies had started to take the pronouncements of the RJ into account when preparing their financial statements. Whether or not it was easy or challenging to comply, given the number of options in several guidelines, is outside the scope of this dissertation.

7.4.6 Reporting developments in respect of financial conglomerates

As is described in the previous chapter, the beginning of the 1990s witnessed a fundamental liberalisation of the structural policy, which previously prohibited mergers of banks and insurance companies. This development triggered a number of such business combinations, including the creation of Fortis and ING. As is noted earlier in this section, this had never been foreseen at the time that the European banking and insurance accounts directives were developed and, as a result, there was no specific European legislation available which could serve as a basis to determine the financial reporting requirements for such groups.

However, as the groups were created, financial statements needed to be prepared and solutions for existing problems had to be developed in practice. A review of the actual annual accounts of seven financial conglomerates over 1991 by van der Tas showed that different models were applied.

As is described in more detail in the section presenting the actual reporting practices of the companies reviewed in this dissertation, there was a clear distinction between, as they were called in the accounting literature, the ‘Fortis-model’ and the ‘ING-model’. This did not refer to the models used to present the balance sheet or the profit and loss account: the tables in annex 13 show that these were quite similar. The distinction focused on the segment information. In both approaches, profit and loss accounts for the different activities were included in the notes, but while Fortis also presented separate balance sheets for its insurance activities, banking activities, and general activities (including the amounts of equity per segment), ING, in 1991 and 1992, did not.

To address the situation of lacking financial reporting requirements, the Association of Insurers and the Dutch Bankers Association established a joint working group to develop proposals for the annual accounts of Dutch financial conglomerates. Its report was published at 31 January 1992, and explained that financial conglomerates wanted to present themselves as a group, and therefore demanded consolidation. However, it continued, there were, in reality, three kinds of groups:

- Banking companies with an insurance subsidiary: in these cases, the banking reporting rules should be dominant, with separate lines in the balance sheet and the profit and loss account for material items of the insurance activities;
- Insurance companies with a banking subsidiary: in these cases, it would be the other way around; and
- Mixed groups, in which neither of the two activities was prevailing. For these groups, separate reporting requirements needed to be developed, which formed the remainder of the report.

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310 See section 6.6.8.
311 van der Tas (1993).
312 Pals (1997).
For these mixed groups, the report identified the following segments, on which information should be provided: insurance segments (subdivided into life insurance, non-life insurance, and reinsurance business), banking business, and, if present, other business. For each segment, balance sheet information should be provided in the notes in accordance with the requirements of the relevant European directives. However, a split of equity was not considered necessary and in conflict with the nature of consolidated reporting. Regarding the profit and loss account, information per segment should be provided in full, including the result before tax. Elimination within segments should occur, but not between segments: such adjustments should be disclosed separately.

Concerning accounting policies, the report identified three categories of items in the balance sheet and the profit and loss account:

- Those related to the banking activities, which should be subject to the banking requirements;
- Those related to the insurance activities, using the requirements for this industry; and
- Items of a more general nature, accounted for under the general accounting principles.

However, identical items should be reported under identical accounting principles, independent of the category to which they belonged. Examples were land and buildings (including those for own use), which should be measured at current value without depreciation, and investments in debt securities and other fixed-income securities, which should be valued at redemption value less necessary allowances for credit risk and for which gains and losses resulting from exchange transactions should be amortised over the remaining term of the sold investments. The amount of revenue of the group would be determined by the sum of the revenues of the segments, each determined in accordance with their specific requirements. The proposed models for the balance sheet and the profit and loss account of a mixed group are presented in annex 9.\textsuperscript{315}

As is described earlier in this chapter, the advice of the joint working group played a role in the implementation of the banking accounts directive. The final outcome was that the implementation act required, from 1993 onwards, that banking segments would be reported in accordance with the banking accounts directive, and insurance segments in accordance with the insurance accounts directive. For each segment, the amounts of equity should be presented. In the debate in Parliament, reference was made to the practice applied by Fortis, described above.

The issue of financial reporting requirements for financial conglomerates was not just a specific Dutch phenomenon. In December 1993, the FEE issued a report to the European Commission with recommendations regarding the consolidated annual accounts of such groups.\textsuperscript{316} As is explained in the previous chapter, the seventh directive prohibited consolidation of a company if the activities were so different that its inclusion would be incompatible with the requirement to give a true and fair view.\textsuperscript{317} The FEE was of the opinion that this was no barrier to the consolidation of banking and insurance activities. At the time when the directive was negotiated, banking and insurance activities were considered by some member states as the classic examples of such an incompatibility,\textsuperscript{318} but since then financial conglomerates – which did not exist in the early 1980s – had gained in number and importance.

\textsuperscript{315} See tables A9.97 and A9.98.
\textsuperscript{316} FEE (1993b).
\textsuperscript{317} See section 6.4.2.3.
\textsuperscript{318} This FEE statement was later confirmed by Beckman (1998).
According to the FEE, consolidation was now both desirable and necessary, because it reflected the international views evidenced in IAS 27, and in the case of a financial conglomerate in which banking and insurance activities were both significant, it provided a more balanced picture of both of these activities.

Regarding feasibility, the FEE view was that the existing directives provided the basis for an approach, under which new items were added to the formats and additional information was provided where this was needed for a true and fair view. Using this approach, it developed illustrative forms of financial statements (including notes), using the existing formats as a basis.\(^{319}\)

When the banking segment was the most significant, the layouts of the banking accounts directive should be used as the starting point; if insurance was the largest, the layouts should start from the insurance accounts directive. When both were equally significant, the models were based on the fourth directive. In all cases, the notes should include a segmental analysis of the balance sheet, and intra-group items should be eliminated. The proposed columns were banking, insurance, other, eliminations and total.

The report also presented recommendations regarding the valuation principles, which were different under the two sectoral directives. According to the FEE, it was the purpose for which assets were held and liabilities incurred, rather than their nature, that had the greatest importance when considering the valuation rules to be applied to the banking and insurance activities of a financial conglomerate. Therefore, the different approaches of the two directives to the valuation of assets could be retained in the consolidated annual accounts of a financial conglomerate. However, the valuation rules should be changed to a consistent basis when all of the following conditions applied:

- The assets were of a like nature and were used for a like purpose;
- It was the intention of management to continue using the assets for that purpose; and
- The same information was given as would have been the case if the valuation method used by the banking or insurance business had been retained.

Where, following the above principle, different valuation methods were retained for like assets, assets subject to different measurement bases should be shown separately.

The FEE proposals were extensively described and discussed by Kölschbach in his dissertation.\(^{320}\) Although he broadly supported the models, his main recommendation was that balance sheet captions could only be combined if the items were similar in a business and economic meaning, but also based on identical measurement principles. If one of these conditions was not met, combination should be prohibited. Given the fundamental differences in profit and loss account models for the banking and insurance industries, a simple combination could, in his view, not provide a true and fair view, so a completely new and different model was fully acceptable. However, the primary solution should be found in sufficiently detailed segment information.

\(^{319}\) The proposed formats are presented in tables A9.36 to A9.51.

The consolidation prohibition for banks and insurers, introduced in the seventh directive, was deleted in 1998, when the European Commission published an interpretative communication concerning certain articles of the fourth and seventh directives.

The formats for the balance sheet and the profit and loss account for financial conglomerates were also discussed by van der Schaaf-Visser in 1996. She noted that it could be argued that such a group was neither a bank nor an insurance company, and therefore its financial statements should be determined in accordance with the fourth and seventh directives, not with the banking and the insurance accounts directives. Furthermore, an economic presentation should prevail.

Commenting on the proposals of the FEE, she noted that they seemed to focus more on combination than on consolidation of the two business segments. In her view, this was in particular the case for the models in respect of the profit and loss account. Regarding the choice of accounting policies, according to van der Schaaf-Visser only a few issues needed to be addressed. For land and buildings, the choice should be determined by the relative size of the portfolio. If the investment portfolio of the insurance business was considerably larger than the portfolio of office buildings of the banking business, the most obvious choice was not to depreciate. For the remaining issues, an economic approach usually provided the answers:

- Acquisition costs in the insurance business were capitalised and amortised;
- Investments in fixed-income instruments were measured at cost, aligned with the measurement of the technical provisions;
- Investments in land and buildings were measured at current value; and
- Realised gains and losses on fixed-income instruments were amortised.

Concerning realised gains and losses on land and buildings, and on shares, an economic approach required the inclusion in the profit and loss account of a prudent estimate of the long-term structural value increase, as was practiced by some Dutch companies. In van der Schaaf-Visser’s view, this was, however, no customary practice, neither in the Netherlands nor internationally. Based on the economic approach, it would also be logical to capitalise and amortise goodwill. She expected, however, that, in practice, Dutch companies would undoubtedly continue to use the legal option to charge this item immediately to equity. Finally, in respect of the revenue concept for a financial conglomerate, she noted that a consistent approach would be to eliminate the saving component from the premium income of the insurance business, to align with the normal practice in the banking business. Since this would, however, create a large inconsistency with other insurance companies and result in a drastic decrease of revenue, having a major impact on the international rankings, she expected that this, in practice, would be a bridge too far to implement.

The revenue concept of financial institutions was also discussed by Oosenbrug in 1997. He pointed at the fact that both banks and insurers received large amounts from their customers, which were, effectively, saving deposits, but which were treated completely different in the profit and loss accounts.

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321 See section 6.4.2.3.2.
323 van der Schaaf-Visser (1996).
324 Oosenbrug (1997c).
Furthermore, Oosenbrug noted that banks generally classified only their net interest income as revenue, while – in line with non-financial companies – paid interest was, in substance, similar to cost of sales. Finally, he pointed (again) at the inappropriate treatment of profit-sharing arrangements which resulted in increased insured capital. In summary, he considered banking revenues widely understated, and insurance revenues dramatically overstated.

The financial reporting practices by financial conglomerates were also researched, by assignment of the Ministry of Finance, by the ‘Amsterdam Research Center in Accounting’ of the VU University of Amsterdam. It reviewed the financial statements for the years 1998 and 1999 of 13 Dutch financial conglomerates, including AEGON, Fortis and ING, and concluded that the largest differences between the groups concerned the preparation of segment information and the accounting treatment of the gains and losses on land and buildings and on shares. According to the reviewers, this could be explained by a lack of sufficient guidance in the legislation and guidelines of the RJ for these combinations of banking and insurance activities.

7.4.7 Summary and conclusions

The main events on the legislative front described in this chapter were the implementation of the European banking and insurance accounts directives. They complemented the fourth and seventh accounting directives, regulating the specifics in respect of credit institutions and insurance companies. The section shows that there was, legally, a clear difference in respect of the roles of the prudential supervisors in respect of the annual accounts of financial institutions: while, on the one hand, the banking supervisor DNB was officially prohibited to determine the contents of the financial statements of banks, the Insurance Chamber, on the other hand, was given a clear role by the legal linkage of financial and prudential reporting requirements, with the prudential requirements still prevailing (a type 4 single-track reporting approach). However, the description also shows that there was not a difference in practice: because of the approach in the Dutch banking industry to align the annual accounts to the prudential returns, the DNB still exercised a significant influence, and the prudential reporting requirements continued to play an important role in practice. At the same time, the implementation of the banking accounts directive resulted, in 1997, in the abolishment of the practice in the Dutch banking industry to create, under the liabilities, an undisclosed reserve to cover the risks of banking business (the VAR), which diminished the level of undisclosed prudence in the financial statements of Dutch banks. The European insurance accounts directive was implemented in the same way as had been done with the previous accounting directives: the Dutch government included virtually all options in the directives in the Dutch legislation, and left it to the RJ to provide guidelines on how to implement the legal requirements, although it did expand the prevailing Administrative Decree on the models for annual accounts with mandatory layouts for the balance sheet and the profit and loss account for insurers.

In response, the RJ published a guideline on the financial statements of insurance companies at the end of 1998. It concluded a debate started in the 1980s when the RJ discussed a first draft of such a guideline, and, effectively, did little more than restating the legal financial and prudential reporting requirements as RJ pronouncements. In one respect, it even went one step further. This concerned the accounting treatment of realised gains and losses on investments in land and buildings and in shares.

325 ARCA (2000).
The RJ introduced the so-called structural indirect return method, which was neither included in the insurance accounts directive nor in the Dutch legislation. As a result, this decision was heavily contested, in particular by Oosenbrug, but, as is described later in this chapter, this did not stop a number of Dutch insurers, with AEGON as the largest, to adopt the method in their annual accounts. Oosenbrug also provided another comment on the guideline, stating that it was obvious that a distinction between financial and prudential reporting requirements was necessary given the different objectives of reporting regimes. It was clear that Oosenbrug was a strong opponent of a single-track reporting approach recommended by the RJ, which, in my view, was unjustified for formal reasons, because the Dutch government had explicitly supported it and the RJ could not set legal requirements aside. Furthermore, I disagree with his conclusions in substance, since, in my view, a type 8 single-track reporting approach can serve both objectives: the financial reporting requirements are leading, and additional information is presented to meet the prudential requirements, including the available and required solvency margins and all related prudential filters.

Regarding the other activities of the RJ in the period described in this chapter, the description shows that the pronouncements of the IASC played a more and more influential role in the Netherlands, and the acceptability of international accounting standards increased over the years, although not without reservations, in particular in respect of the more stringent requirements. This influence of the IASC revitalised discussions held in the previous decades on the role of the RJ, where some argued that it became redundant, and others identified a number of conflicts between IAS and the Dutch legislative framework. However, these comments did not hold back the RJ to maintain its policy to take IAS into account in developing its own guidelines, a policy that was even strengthened in 1997 by a statement that the RJ would take IAS as its starting point.

During the period, the RJ issued a conceptual framework and final guidelines in respect of changes in accounting policies and fundamental errors, financial instruments, tax accounting, consolidation, business combinations (including goodwill), segment reporting, the statement of source and application of funds, and the statement of cash flows. At the end of the period, almost all IASC standards had been incorporated, generally with only minor differences. The RJ also issued a number of draft guidelines that were revisions to existing guidelines and only finalised in the next decade: these concerned, in particular, business combinations (including goodwill), provisions, and pension liabilities. Furthermore, the RJ issued a draft guideline on the financial statements of banks.

Regarding the reporting practices by Dutch companies, empirical research showed that there were still a number of areas where the financial statements did not always seem to comply with the legal requirements or the pronouncements of the RJ, or where a significant level of diversity was observed. This concerned accounting policy changes, business combination and goodwill accounting, provisions, extraordinary gains and losses, and segment information.

A completely new development in the period related to the creation of financial conglomerates, which had not been foreseen when the European accounting directives were adopted. To address the reporting challenges, initiatives occurred both at the Dutch and at the European level, which, ultimately, led to the inclusion of specific pronouncements in the Dutch civil code on the need to disclose sufficiently detailed segmental information, including the amounts of equity in and results of the combined banking operations and the combined insurance operations.
7.5 Reporting developments in the US and the UK

7.5.1 Introduction
The most important developments in the US and the UK occurred in the area of financial reporting requirements. The US FASB issued a number of additional standards, which became more relevant for this dissertation because of the US listings of AEGON, already in 1985, and ING, in 1997. But the FASB also issued several publications on the comparison between US GAAP and IAS.
In the UK, the newly created accounting standard setter ASB continued the work of its predecessor in incorporating, to the maximum extent, the pronouncements of the IASC. But in this country, the financial reporting requirements for insurance companies were also influenced by the implementation of the European insurance accounts directive and, in particular, by the activities of the UK insurance industry through the publication of several specific reporting standards for insurance companies. This resulted in more pressure on the prevailing type 3 or type 4 single-track reporting approaches.

The developments in respect of the prudential reporting requirements were limited.

7.5.2 United States of America

7.5.2.1 Developments at the SEC
As is described in earlier chapters, the SEC issued a number of regulations in respect of listing requirements since it had been created in 1934. The requirements were included in regulations for accounting principles (‘Regulation S-X’), based on the standards issued by the FASB and its predecessors but sometimes expanded, and for disclosures (‘Regulation S-K’).

‘Form 10-K’ detailed the reporting formats for domestic filers, and ‘form 20-F’ was the main document for foreign companies. If the latter did not prepare their annual accounts in accordance with the FASB standards, they had to reconcile their equity and net profit to these pronouncements. As is noted in the previous chapter, this requirement was introduced in 1982.

However, it was also possible to issue securities in the US without submitting all forms described above, under ‘Rule 144A’. This rule was introduced in April 1990, when the SEC removed the FASB reporting requirements for foreign companies making private placements with designated institutional investors. Instead, they were required to file the information which they would normally file on their domestic exchange. The main advantage of the new rule was that it exempted foreign companies from the costly disclosures required when registering securities with the SEC.

As is noted in the earlier chapters, from the start the SEC delegated, at least to a large extent, its authority to set financial reporting standards to the private sector, and this continued to be the case after the establishment of the FASB.

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326 See section 3.2.5.
327 See section 3.4.5.
328 See sections 5.3.3.2 and 6.5.2.2.
330 See section 6.7.3.
332 See section 5.3.3.2.
However, occasionally the SEC made it clear that it would not allow the application of practices that it considered against the interest of investors. One example was a speech delivered by the SEC chair Levitt in September 1998, criticising earnings management practices.334 He gave five examples of, what he called, “hocus-pocus accounting”, including “big bath accounting” (taking a one-off large hit in the profit and loss account to increase future profitability), ignoring the realisation principle, and stretching the materiality concept.

7.5.2.2 The pronouncements of the FASB
In the period reviewed in this chapter, the FASB issued a number of new or revised standards, with a continued focus on the information needs of investors and creditors. This included statements on deferred tax (FAS 109 ‘Accounting for income taxes’,335 issued in February 1992, which required an asset-liability approach), specialised accounting principles for certain industries (FAS 111 ‘Rescission of FAS 32 and technical corrections’,336 issued in November 1992 and following up the AICPA’s SAS 69, presented later in this section), comprehensive income (FAS 130 ‘Reporting comprehensive income’,337 issued in June 1997 and requiring a separate statement of ‘Other comprehensive income’, henceforth, ‘OCI’), and segment information (FAS 131 ‘Disclosures about segments of an enterprise and related information’,338 also issued in June 1997 and based on the ‘management approach’). However, the most important standards for this dissertation concerned accounting for insurance business and for financial instruments.

On insurance business, two standards were issued. The first was FAS 113 ‘Accounting and reporting for reinsurance of short-duration and long-duration contracts’, issued in December 1992.339 It required the transfer of significant insurance risk to be recognised as reinsurance; if this was not the case, deposit accounting under FAS 97 had to be applied.340 FAS 113 also specified the accounting method by insurance companies for qualifying reinsurance contracts, prohibiting netting in the balance sheet, but allowing it in the profit and loss account. The second standard was FAS 120 ‘Accounting and reporting by mutual life insurance enterprises and by insurance enterprises for certain long-duration participating contracts’, issued in January 1995 and amending the existing insurance standards FAS 60, FAS 97 and FAS 113.341 Earlier that month, the AICPA had established accounting requirements for certain participating life insurance contracts of mutual life insurance companies in its SOP 95-1 ‘Accounting for certain insurance activities of mutual life insurance enterprises’. These insurers should apply FAS 60 and FAS 97 to participating life insurance contracts unless those contracts met specific conditions. Under FAS 120, other life insurers with participating life insurance contracts that met these conditions were permitted to account for those contracts in accordance with the SOP. With FAS 120, also FIN 40 ‘Applicability of generally accepted accounting principles to mutual life insurance and other enterprises’, issued in April 1993, became effective.342

333 See section 6.5.2.1.
334 Traas (1999).
337 Ibid, volume II, p. FAS 130-1 to FAS 130-34.
340 See section 6.5.2.6.
According to FIN 40, regulated companies, preparing financial statements based on regulatory accounting practices that differed from generally accepted accounting principles, should not describe the statements as prepared “in conformity with generally accepted accounting principles”. This meant, in my view, a clear rejection of a single-track reporting approach.

With respect to financial instruments, the most important standard was FAS 115 ‘Accounting for certain investments in debt and equity securities’, issued in May 1993. The standard addressed the accounting requirements for investments in equity securities that had readily determinable fair values and for all investments in debt securities. These investments should be classified, at the acquisition date, in three categories and accounted for as follows:

- Debt securities that the company had the positive intent and ability to hold to maturity were classified as held-to-maturity and reported at amortised cost. Realised gains and losses were reported in the profit and loss account;
- Debt and equity securities that were bought and held principally for the purpose of selling them in the near term were classified as trading securities and reported at fair value, with unrealised gains and losses included in the profit and loss account; and
- Debt and equity securities not allocated to these categories were classified as available-for-sale and reported at fair value, with unrealised gains and losses reported in OCI, which was a separate component of equity. When realised, they were included in the profit and loss account (‘recycled’).

Dividend and interest income for all three categories should be included in the profit and loss account. The standard did not apply to derivatives and provided extensive guidance on the classifications, transfers between the categories, and impairments. For individual securities classified as either available-for-sale or held-to-maturity, the company should determine whether a decline in fair value below amortised cost basis was other than temporary. If so, the cost of the individual security should be written down to fair value as a new cost basis and the amount of the write-down should be included in the profit and loss account. The new cost basis should not be changed for subsequent recoveries in fair value. For available-for-sale securities, subsequent increases in fair value should be reported in OCI, as should subsequent temporary decreases.

Finally, FAS 133 ‘Accounting for derivative instruments and hedging activities’ was issued in June 1998. The standard established accounting and reporting standards for derivatives, including certain derivatives embedded in other contracts, and for hedging activities. It required all derivatives to be recognised as either assets or liabilities in the balance sheet and measured at fair value. The fair value movements of derivatives not designated as hedging were reported in the profit and loss account.

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343 Ibid, volume I, p. FAS 115-1 to FAS 115-27.
344 The standard also resulted in an amendment to FAS 60, providing similar accounting for equity securities without readily determinable fair values.
346 As hedge accounting is outside the scope of this dissertation, the requirements for these activities are not discussed.
7.5.2.3 The activities of the AICPA

As is described in the previous chapter, the role of the auditing profession changed considerably after the establishment of the FASB in 1973.\(^{347}\) It was much less directly involved in setting accounting standards, but focused on providing technical support to its members by publishing auditing standards and SOPs.

Probably the most important auditing standard issued in the period under review in this chapter was SAS 69 ‘The meaning of “present fairly in conformity with generally accepted accounting principles” in the independent auditor’s report’, published in January 1992.\(^{348}\) The statement presented an overview of the sources of established accounting principles that were generally accepted in the US and of the authority to be allocated to each source. A few years later, the AICPA issued SOP 95-5 ‘Auditor’s reporting on statutory financial statements by insurance enterprises’, requiring auditors to discontinue issuing reports on these statements that included a disclaimer of opinion as to fair presentation in conformity with GAAP.\(^{349}\) It superseded SOP 90-10 ‘Reports on audited financial statements of property and liability insurance companies’, which allowed such disclaimers.

Regarding accounting guidance, SOP 98-7 ‘Deposit accounting – accounting for insurance and reinsurance contracts that do not transfer insurance risk’ was of particular relevance.\(^{350}\) It applied to all contracts that did not transfer insurance risk, except long-duration life and health insurance contracts. It had been cleared by the FASB, using its normal criteria to take such a decision.

These included:

- The proposal did not conflict with current or proposed accounting requirements, unless it was a limited circumstance, usually in specialised industry accounting, and the proposal adequately justified the departure;
- The proposal would result in an improvement in practice;
- The AICPA had demonstrated the need for the proposal; and
- The benefits of the proposal were expected to exceed the costs of applying it.

Generally, US GAAP required that contracts that did not transfer insurance risk should be reported under the method of deposit accounting. The SOP classified the contracts for which the deposit method under FAS 97 was appropriate into four categories, and provided specific accounting rules for each category.\(^{351}\)

7.5.2.4 The US attitude towards international accounting standards

As is described in the previous chapter, there was little appetite in the US auditing profession to support the roll-out of international accounting standards domestically: it left it to the FASB to take any such decisions.\(^{352}\) However, nothing happened at this level, until, in September 1991, the SEC took an initiative which would have a major impact on both global and US accounting standards in the next decades.

\(^{347}\) See section 6.5.2.1.
\(^{348}\) AICPA (1992).
\(^{349}\) AICPA (1996).
\(^{350}\) AICPA (1998).
\(^{351}\) FAS 97 is described in the previous chapter, see section 6.5.2.6.
\(^{352}\) See section 6.5.2.2.
This initiative was presented by Lochner, one of the SEC Commissioners, who stated that the FASB should undertake a comprehensive review of its existing standards to determine how they compared with international practices.\textsuperscript{353} To the extent current standards departed from a respectable, generally accepted international practice, the FASB should consider whether it was appropriate to adopt the international consensus.

It took a few years before the FASB publicly responded to this request. In November 1996, it published a book including comparisons between US GAAP and IAS.\textsuperscript{354} It mentioned that the IASC’s shift in focus had led to increased pressure on the SEC to accept financial statements prepared in accordance with IASC standards for foreign issuers listing on the US capital markets.\textsuperscript{355} Furthermore, international pressure increased because, in the last two years alone, the number of foreign registrants filing with the SEC had increased from 530 to more than 750, representing more than 45 countries.\textsuperscript{356}

The publication was a comprehensive, comparative analysis of existing IAS and US GAAP (i.e. those in force at the end of 1995) in most of the key areas of accounting that had been identified by the IOSCO as the core standards necessary for cross-border filings. It presented a wide range of differences between IAS and US GAAP and attempted to assess the significance of those differences. IAS and US GAAP covering the same topic could be mostly similar, they could differ to the extent of specificity of implementation guidance, they could be (very) different in their general approach, or they could explicitly permit a choice of alternative approaches that could result in either very similar or very different accounting treatments under the two sets of standards. Finally, there were differences attributable to specialised accounting topics addressed only by US GAAP.

In an effort to provide a succinct impression of how IAS compared with US GAAP, the findings were summarised by categories that reflected the nature and the extent of the differences between them. Even for those topics identified as “similar”, IAS and US GAAP were not identical and contained some differences. Therefore, the term ‘variation’ was used to refer to a similarity or difference identified during the study and judged to be significant enough to merit comment. Variations were listed for each significant topic covered within the broad areas of scope, definitions, recognition, measurement, display (or, under the IASC terminology, presentation), and disclosures.

The results are presented in the following table. It excludes category F variations, which were specialised accounting topics addressed by US GAAP but not explicitly addressed by IAS, such as the financial statements of banks and insurance companies.

\textsuperscript{353} Lochner (1991).
\textsuperscript{354} FASB (1996).
\textsuperscript{355} This referred to the IASC-IOSCO core standards work program, described earlier in this chapter when presenting the Dutch financial reporting developments.
\textsuperscript{356} FASB (1996).
### Table 7.10
Number of identified differences between IAS and related US GAAP classified by category of variations at the end of 1995

<table>
<thead>
<tr>
<th>Category of variation</th>
<th>Frequency of occurrence</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
</tr>
<tr>
<td><strong>Group 1: topics covered by both IAS and US GAAP</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Similar approach and guidance</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>B Similar approach but different guidance</td>
<td>79</td>
<td>31</td>
</tr>
<tr>
<td>C Different approach</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>D Alternative approaches permitted</td>
<td>27</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total group 1</strong></td>
<td></td>
<td>218</td>
</tr>
<tr>
<td><strong>Group 2: topics covered by IAS or US GAAP</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E Existing differences</td>
<td>37</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total variations identified and classified</strong></td>
<td></td>
<td>255</td>
</tr>
</tbody>
</table>


The analysis showed that IAS generally included more options than US GAAP, and that the latter was more prescriptive in a number of areas. Furthermore, the concept of prudence was more prominent in IAS than in US GAAP. Fundamental differences existed regarding deferred tax, pension accounting, business combinations, consolidation, the scope of the standards on financial instruments, and property, plant and equipment.

According to Schoonderbeek, the study made it clear that there was a lot of resistance in the US to accept IAS.\(^{357}\) He noted that a large number of differences concerned details, for which US GAAP included guidance but IAS not (yet), or situations where there were differences, but the IOSCO had already accepted IAS. Klaassen observed that, in substance, IAS was very similar to US GAAP, and that the large number of minor differences was mainly caused by the fact that IAS was, generally, formulated less stringent than US GAAP.\(^{358}\) And Cairns, a former secretary-general of the IASC, commented that there were some fundamental differences between the two sets of standards.\(^{359}\) In his view, one very clear message from the publication was that the FASB disliked the IASC’s broad, general standards and its practice of distinguishing standards and implementation guidance.

But, he continued, this should not be surprising, as the SEC had already been aware of such differences: its own staff produced a similar study early in 1993.

After the completion of the last of the core standards by the IASC, the 1996 comparison study was repeated in 1999.\(^{360}\) It focused on the standards and interpretations in force at December 1998, and showed that, although a number of variations had been eliminated, considerable differences still existed in respect of options available under IAS and not under US GAAP, the structure and presentation of financial statements, segment information, pension accounting (although less than in the previous comparison), business combinations, consolidation, impairment accounting, provisions, intangible assets, financial instruments, and property, plant and equipment.

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\(^{357}\) Schoonderbeek (1997).

\(^{358}\) Klaassen (1998).

\(^{359}\) Cairns (1997).

\(^{360}\) FASB (1999).
These differences between IAS and US GAAP were still the same when comparing the standards applicable at year-end 1999, as is shown in a publication issued by KPMG.\(^{361}\) In fact, this study showed that an additional one had been created, in respect of investment properties.

The US attitude towards IAS at the end of the period under review was summarised by van der Tas.\(^{362}\) He noted that, apart from the Japanese, the SEC was the only securities regulator in the world that had not (yet) recognised IAS as an acceptable reporting basis for cross-border listings. In his analysis, this situation would persist as long as US companies had the feeling that IAS was more flexible than US GAAP, giving them a competitive disadvantage to foreign companies. He further wondered what recognition would entail, since the SEC had already announced that it would not recognise IAS in areas where no standard were issued, such as in respect of banks and insurance companies. Furthermore, it had stated that it might continue to require additional disclosures when this was required under US GAAP, but not under IAS. He concluded that the SEC was the only securities regulator in the world that accepted its own GAAP only, an attitude that had not made the US very popular.

7.5.2.5 Insurance company financial reporting under US GAAP compared to the European requirements

The reporting requirements for insurance companies under US GAAP were bundled, comparing them with European requirements, in a brochure issued by KPMG in 1998.\(^{363}\) The most significant adjustments from the several European national GAAPs to US GAAP were grouped under three headings: property and casualty (i.e. non-life, excluding health) insurance operations, life insurance operations, and investments.

Regarding property and casualty insurance operations, the basic accounting model (FAS 60) was almost similar to most European accounting systems. Provisions for claims outstanding could include a margin for uncertainty above the best estimate of the liability, but the flexibility in determining results was less than could be achieved under most European accounting systems. And equalisation and catastrophe provisions were not allowed. Life insurance operations were classified as probably the most technically complicated area in comparing US and European GAAP. Specific attention points were the product classification, the calculation methods of the life insurance provisions, and accounting mismatches, which could occur under the valuation rules for investments. As a result of these differences, US GAAP provisions were, generally, less conservative than those used in Europe. In respect of investments, the flexible way in which most European insurers managed their investment portfolios meant that most listed securities would be carried under US GAAP at fair value. Most (other) fixed-maturity investments would be at amortised cost, and land and buildings at depreciated cost.

Usually, the impact on equity of a conversion to US GAAP would be an increase resulting from the prohibition of equalisation provisions, less prudent life insurance provisions, and a larger part of securities at fair value. On the other hand, one could expect a decrease resulting from the valuation of land and buildings at depreciated cost. In respect of the impact on the profit and loss account, US GAAP generally led to earlier life profit recognition than under most European GAAPs.

\(^{361}\) KPMG (2000).  
\(^{362}\) van der Tas (1999).  
\(^{363}\) KPMG (1998b).
The impact for property and casualty insurance companies could not be generally stated, as this depended highly on the impact of the prohibition of an equalisation provision, which was the most important factor in this business.

7.5.2.6 US prudential reporting developments

In the legislative area of US prudential reporting requirements, the most important event was the adoption of the ‘Gramm-Leach-Bliley’ act in 1999. The act amended the ‘Banking act of 1933’, commonly known as the ‘Glass-Steagall’ act, which had introduced strict limitations on the activities of all banks. This situation changed fundamentally in 1999. The Gramm-Leach-Bliley act repealed the restrictions in the Glass-Steagall act on banks affiliating with securities firms. It also created a new ‘financial holding company’ under the ‘Bank holding companies act’ of 1956: such a holding company could engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking and insurance company portfolio investment activities. Finally, it clarified the regulatory roles of the Federal Reserve as the umbrella holding company supervisor, and the state and other federal financial regulators which ‘functionally’ regulated various affiliates. This fundamental change in the US supervisory system was of particular importance to Fortis and ING, the two financial conglomerates in this dissertation, which both owned considerable banking activities.

As is explained in the previous chapters, there was an ongoing battle of jurisdiction between Congress and the state insurance regulators on who was responsible for the supervision of insurance companies. The Gramm-Leach-Bliley act ended this as well by making it clear that the 1945 McCarran-Fergusson act, which determined that insurance supervision was the responsibility of the states, was still applicable. However, before this was the case, Congress discussed two reports, issued in 1990 and 1994, criticising the effectiveness of the state insurance regulations and proposing federal solutions. As a response to these reports, state insurance regulators agreed to endorse a set of financial regulation standards developed by the NAIC, which subsequently reviewed their implementation in order to issue accreditations to approved supervisors. A voluntary certification program was adopted in June 1990 and the first two states were accredited in December 1990. Several states engaged in long discussions with the NAIC over the accreditation process. One was New York, which was accredited in 1990, but whose accreditation was suspended in 1993 when a state senator blocked passage of two new required model laws. In March 2002, 47 states and the District of Columbia were accredited.

Other concerned the introduction of a risk-based capital (henceforth, ‘RBC’) approach by the NAIC in the early-1990s. It identified a number of specific risks, separately for life, non-life, and health insurers, and used these risks as the basis for determining the required solvency margin. The types of risks were asset risk, credit risk, interest rate risk, underwriting risk, off-balance sheet risk, and business risk.

365 Federal Reserve (1933).
367 See sections 5.4.1.6 and 6.5.2.7.
368 See section 5.4.1.6.
370 NAIC (2002).
Regarding the statutory accounting principles (SAP), applicable to the prudential returns, additional reserve requirements were introduced in 1992, in particular the ‘Asset valuation reserve’ (henceforth, the ‘AVR’) for life insurers to absorb potential losses of all their assets. It replaced the former mandatory securities valuation reserve, described in the previous chapter. Simultaneously, an ‘Interest maintenance reserve’ (henceforth, the ‘IMR’) was required for life insurers. If fixed-income investments were sold, the IMR required companies to amortise the resulting capital gains that represented future interest yields needed to support policy liabilities, over the remaining life of the investment. Under SAP, both the AVR and the IMR had to be presented as liabilities and not as part of equity. And property and casualty insurers were required, if they measured provisions for claims outstanding for certain lines of insurance business at a value of less than required by the regulators, to report the difference as an additional liability titled ‘Excess of statutory over statement reserves’. Furthermore, the valuation rules for debt securities started to depend on their credit rating, resulting in either amortised cost (for the highest grade instruments) or market value. With these amendments, SAP moved further away from US GAAP, strengthening the prevailing split reporting approach in the US.

7.5.3 United Kingdom

7.5.3.1 Legislative developments in the period 1990-1999
In respect of financial reporting requirements, the only change in the companies act was adopted in 1993. It concerned the implementation of the EU insurance accounts directive, described earlier in this chapter when presenting the Dutch financial reporting developments. The ‘Companies act 1985 (insurance companies accounts) regulations 1993’ introduced a new schedule in the 1985 companies act, which substituted the existing accounting rules. It resulted in the financial statements of insurers being required specifically to show a true and fair view, without referring to the applicable insurance companies act, as was the case under the 1985 companies act. The new format required separate disclosure of the long-term business provision, the liabilities and the accounts constituting undistributed surplus, either in the reserves or in a special fund (the FFA). Almost all member state options included in the insurance accounts directive were exercised, changing as little as possible in UK legislation. As a result, the existing type 3 or type 4 single-track reporting approaches were maintained.

Move developments occurred in the area of prudential supervision. The insurance companies act was regularly amended to adopt new European directives, often in the form of issuing new regulations. An example was the 1992 regulation, which introduced changes in the insurance companies act to implement the second insurance directives 88/357/EEC and 90/619/EEC.

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373 See section 6.5.2.8.
378 See section 6.5.3.1.
379 As is explained in section 6.5.3.1, I have not been able to determine which of these types was applied.
380 In assessing the use of this legal instrument, the reader should know that such regulations required approval by Parliament. In that sense, they cannot be compared to ‘secondary-level’ legal instruments in the Netherlands, such as an Administrative Decree, which did not require parliamentary approval.
These directives are described later in this chapter in the section on the Dutch prudential reporting developments. Further changes were made in 1994, to implement the third insurance directives 92/49/EEC and 92/96/EEC.\textsuperscript{382}

The new 1994 rules for long-term liabilities were discussed by Penrose.\textsuperscript{383} They provided, inter alia, that the determination of the amount of long-term liabilities should be made on actuarial principles which had due regard to the reasonable expectations of policyholders and should make proper provision for all liabilities on prudent assumptions including appropriate margins for adverse deviation of the relevant factors. According to Penrose, however, these new regulations did not provide clarity on the treatment of future bonuses. The UK had not adopted the option, available in the third life insurance directive, to introduce a requirement for prudent reserving for future terminal bonus payments.\textsuperscript{384}

In 1995, two additional changes to existing prudential legislation were implemented. Firstly, an act was issued, introducing the possibility to require non-life insurance companies to set up an equalisation reserve.\textsuperscript{385} Secondly, the regulation was amended introducing detailed changes in the valuation methods for several assets and liabilities.\textsuperscript{386} However, the basic approach described above was not amended. Regarding the responsibility of insurance supervision, a fundamental change was introduced in 1998, when the supervision of all financial services companies was transferred to the newly created 'Financial Services Authority' (henceforth, the ‘FSA’).\textsuperscript{387} The reasons for the reform were the blurring boundaries between financial services, the trend towards the formation of complex groups and conglomerates, and the gains in efficiency and effectiveness in merging all supervisors into the FSA.\textsuperscript{388}

### 7.5.3.2 The creation and pronouncements of the ASB

As is noted in the previous chapter, a new standard setting body (the ASB) was created in 1990, as part of the restructuring of the UK accounting standard setting regime.\textsuperscript{389} As a first step, the ASB adopted all issued SSAPs, until they would be superseded by the ASB’s own accounting standards, called 'Financial reporting standards' (henceforth, ‘FRS’).\textsuperscript{390} But it also recognised the power of other bodies (such as the insurance industry organisation the ABI) to develop SORPs in order to provide guidance on the application of accounting standards to specific industries.\textsuperscript{391} The ASB would require a ‘negative assurance statement’ to be appended to the SORP.

\textsuperscript{382} UK Government (1994a) and UK Government (1994b).


\textsuperscript{384} Ibid, p. 343.

\textsuperscript{385} UK Government (1995a).

\textsuperscript{386} UK Government (1995b).

\textsuperscript{387} KPMG (1998a).

\textsuperscript{388} OECD (2001).

\textsuperscript{389} See section 6.5.3.2.

\textsuperscript{390} Cooke and Wallace (1995).

\textsuperscript{391} ICAEW (2011). These SORPS differed, in my view, from the SOPs issued by the AICPA, since the latter were addressed, after the creation of the FASB, to the auditing profession, while the SORPs were, as a complement to the pronouncements of the ASB, clearly directed to the reporting companies.
In essence, such a negative assurance statement would make it clear that the ASB was not approving the SORP but was rather confirming that it contained no fundamental points of principle that the ASB considered unacceptable in the contents of current accounting practice, that the SORP was not in conflict with any existing or currently contemplated accounting standard, and that the SORP had been prepared in accordance with the ASB’s code of practice.\(^{392}\)

During the period reviewed in this chapter, the ASB issued a number of FRS with particular relevance to insurance companies. The pronouncements largely aligned UK GAAP with (revised) IAS, discussed earlier when describing the Dutch financial reporting developments. Only in case of non-compliance with company law, differences occurred. The standards dealt with cash flow statements, accounting for subsidiaries, reporting financial performance, capital instruments, reporting the substance of transactions, acquisitions and mergers, fair values in acquisition accounting, goodwill and intangible assets, impairment of fixed assets and goodwill, provisions, contingent liabilities and contingent assets, disclosures of derivatives and other financial instruments, and current tax. An overview of these pronouncements is included in the reference list.

In respect of insurance companies, the ASB issued in March 1999 an exposure draft to amend the standard on financial performance (FRS 3).\(^{393}\) It stated that these companies were, in June 1993, granted an exemption of the requirement to recognise all gains and losses in the profit and loss account or in the statement of total recognised gains and losses, and to account for the profit or loss on the disposal of an asset. Since the ABI had published on 8 January 1999 a SORP on accounting for investments (discussed hereafter), this exemption should be amended, and, as a result, the ASB now proposed including the main new recommendations of the SORP in FRS 3. This would introduce a requirement for insurance companies to include both realised and unrealised gains and losses on investments held as part of their investment portfolio in their profit and loss account. The exposure draft was made final in June 1999 without substantive changes.\(^{394}\)

Finally, in December 1999, the ASB issued a ‘Statement of principles for financial reporting’, which set out the principles that the ASB believed should underlie the preparation and presentation of company accounts.\(^{395}\) According to the introduction of the document, it was based on the conceptual framework of the IASC, described earlier in this chapter when presenting the Dutch financial reporting developments, and, therefore, introduced an increasing focus on the information needs of investors.

### 7.5.3.3 Insurance company financial reporting developments

#### 7.5.3.3.1 The 1990 SORP for general insurance business

The first SORP was issued in May 1990.\(^{396}\) It dealt with issues affecting the underwriting result of general (i.e. non-life) insurance companies. The statement was intended to apply only to the financial statements prepared in accordance with the requirements of the companies’ acts and not to the prudential returns drawn up under the insurance companies’ act of 1982.\(^{397}\)

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393 ASB (1999a).
394 ASB (1999b).
395 ASB (1999d).
397 See section 6.5.3.1.
However, there was still a link between the reporting requirements of these two acts, since the insurance companies regulations of 1981 (part of the prudential requirements) stated that, subject to the more detailed rules of the regulations, the amount of liabilities of an insurance company in respect of its insurance business should be determined “in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for insurance companies.” In other words, a single-track reporting approach was maintained, although the emphasis had shifted: since there were now specific financial reporting requirements and the prudential requirements stated that these should be applied, the financial reporting requirements were, in my view, now in the lead: a shift from the type 3 or type 4 approaches to the type 7 or type 8 approaches.

Under the 1990 SORP, non-life insurance business could be accounted for on an annual accounting basis, a deferred accounting basis, or on a fund accounting basis. The document described which conditions should be fulfilled to use the different approaches. Subsequently, the SORP discussed accounting for premiums, expenses, underwriting expenses, and claims, including discounting. Finally, the statement made it clear that equalisation and catastrophe provisions were prohibited, but that reserves set aside to meet such fluctuations could be disclosed in the balance sheet.

7.5.3.3.2 The development of a SORP for life insurance business

The 1990 SORP did not cover life insurance business, although several authors had identified the need to improve accounting for this segment of the insurance industry considerably. For instance, Horton and Macve noted that the traditional ‘statutory solvency model’ of accounting for life business under the companies act of 1985, described in the previous chapter, had been to report the surplus transferred to shareholders from the long-term fund (i.e. the insurance liabilities) each year as the profit for that year. They signalled that this might not reflect the underlying economic reality for the particular year in question because the amounts appropriated could have been affected by transfers to or from reserves (in the accounting sense of the companies act). Furthermore, the balance of the fund could contain reserves (either explicitly in the form of surpluses identified by the actuarial valuation or implicitly in the conservatism of the valuation assumptions assumed), some part of which was, potentially, attributable to shareholders. Another factor was the treatment of the acquisition costs of insurance contracts, which had traditionally been written off as incurred. As a result, the statutory solvency basis was widely regarded as not providing users of accounts with information that they might reasonably expect. This had been regarded as particularly problematic for groups. In summary, Horton and Macve raised, in my view, serious concerns about the continuing validity of a single-track reporting approach led by the prudential reporting requirements.

The first initiatives to address such deficiencies were reported by Lawrence at the end of 1990. He described that the ABI had announced, on 14 September 1990, draft proposals for a new method of accounting for life insurance companies’ profits, the so-called ‘accruals’ method. It was based on six principles, which were considered to be consistent with generally accepted accounting principles.

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398 See section 6.5.3.1.
400 Lawrence (1990).
However, within a year the ABI proposals were revised. The revised draft ‘Accounting for shareholders’ profits in long-term insurance business’ continued to recommend the accruals method, but had been simplified and clarified.

Sowerbutts reported that the comments on this revised draft were not favourable, since it focused only on reporting information to investors and did not consider the policyholders’ interests (in my terminology, it moved away from a single-track reporting approach). He noted that there was a vigorous debate among UK auditors and actuaries as to the best method for reporting the results of life insurance companies. Both ‘Lloyds Bank’ and ‘Barclays Bank’, among others, had used the so-called ‘embedded value’ method to include their life insurance business in their annual accounts.

The development of this method started in May 1987, when the Institute of Actuaries established a working party to consider a methodology to eliminate the prudential margins in the UK life insurance provisions and to present the future cash flows to shareholders on a ‘realistic’ basis. The embedded value could be defined as “the present value of future distributable statutory results, after taxation, which are expected to arise from the existing insurance and investment portfolio (= value in force), increased by the amount of freely distributable equity (= free surplus). This is all under the assumption of going concern”. In calculating the embedded value, realistic assumptions should be used, replacing the – generally – prudent assumptions used in the prudential returns and/or financial statements. Free surplus was defined as the amount of equity after deduction of the target surplus, i.e. the amount that should remain within the company to cover solvency requirements. These requirements were determined by the management and generally higher than those set by the prudential regulators. Concerning the discount rate, the requested shareholders’ return should be used. Embedded value calculations could be used for the following purposes:

- To adjust the prudential accounting principles in the financial statements, in order to show the ‘true’ financial position and results of the insurer;
- To assess the profitability of new products and the production (i.e. new contracts sold) in a specific period;
- As a management tool supporting asset-liability management, budgeting and business planning; and
- As a support tool in case of acquisitions or divestments of insurance portfolios.

Sowerbutts noted that embedded value reporting was, however, not accepted by auditors for reporting a true and fair opinion on the results of the life insurance companies because it was not a recognised basis for reporting in historical cost accounts, inconsistent with the concept of prudence, and not generally accepted. Furthermore, according to the auditors the European insurance accounts directive did not permit embedded value accounting, although some mitigation of new business strain (the accounting impact of the upfront payment of acquisition commissions) was allowed through the use of a deferred acquisition cost asset.
Banking groups with insurance subsidiaries were not within the scope of this directive, and, as there was no prohibition of embedded value accounting in the banking accounts directive and the related UK legislation, continued to use embedded value in their primary financial statements to report the performance of their insurance subsidiaries.

As is explained in the previous section of this chapter, the insurance accounts directive did not include specific rules regarding the calculation of the technical provisions. Such rules were only issued as part of the third life insurance directive, presented later in this chapter as part of the Dutch prudential reporting developments. Therefore, the reference to the insurance account directive was, in my view, incorrect. Regarding the reporting practices of banks, I could argue that they were in conflict with the general valuation rules included in the fourth directive, in particular that only profits made at the balance sheet date could be included.\textsuperscript{407} It was, however, a matter of fact that these practices were applied and approved by the auditors.

The actuarial profession, which had developed the embedded value method, had produced, however, no specific guidance on embedded value accounting. The fact that there was a considerable number of embedded value calculations being made, some with published assumptions, led to a complete lack of convergence. In particular, there were discussions on the appropriate method of establishing risk margins. In practice, the most important was the choice of the discount rate and its relationship with other economic parameters. It fell to the ABI to develop more realistic accounting formats, within the constraints imposed by the accounting framework. Guidance was ultimately issued in December 2001, entitled ‘Supplementary reporting for long-term insurance business (the achieved profits method)’; this is discussed in the next chapter.\textsuperscript{408}

Regarding the developments in practice, O’Keefe et al. noted that embedded value information had been published in some form since the mid-1980s.\textsuperscript{409} In those early years, the disclosure around the methodology and assumptions was generally very limited. In the early 1990s, some companies began adopting the ‘accruals’ method. At this point, there was very little consistency and there was a clear need for some industry standards. By the mid-1990s, most UK life insurance companies published embedded value/achieved profits information. This was a continuation of the trend observed in the previous period, where companies expanded their disclosures to address some deficiencies of the existing type 3 or type 4 single-track reporting approaches.\textsuperscript{410} However, the level of details and the extent of disclosures were still mixed, although the general level of disclosure had increased.

Regarding the reaction of investors on embedded value reporting, a survey conducted by Ernst and Young, published in March 1999, provided some insight.\textsuperscript{411} They interviewed 14 European analysts, and reported that these users found those methods that attempt to provide a ‘realistic’ value of a company (such as embedded value) more useful than those aimed at measuring the solvency of the company on a ‘prudent’ basis. Analysts’ perception at the time was that there was no better method than embedded value; its principal limitations were more in the disclosures (i.e. the assumptions used and the effect of changes in assumptions on the net results) rather than being weaknesses in the methodology itself.

\textsuperscript{407} See section 6.4.2.2.1.
\textsuperscript{408} See section 8.5.3.3.1.
\textsuperscript{409} O’Keefe et al. (2005).
\textsuperscript{410} See section 6.5.3.4.
\textsuperscript{411} Ernst & Young (1999).
In my view, this expanded use and disclosure of embedded value information and its growing appreciation of investors show that the existing type 3 or type 4 single-track reporting approaches, led by the prudential reporting requirements, had reached the end of its lifetime in the UK. Insurance companies provided more and more information in the notes to adjust the figures presented in their primary financial statements, to eliminate a level of, in their view, non-justified prudence in their reporting to investors.

7.5.3.3.3 The 1998 SORP for life and general insurance business
The above debate on accounting for life insurance business was temporarily concluded by the publication of a revised SORP in December 1998, franked by the ASB. It contained recommendations on accounting for insurance business including investments. It did not address the alternative methods of accounting for shareholders’ profits from life insurance business for which guidance was being developed separately by the ABI.

The SORP was very much based on the insurance accounts directive (which, as is noted before, did not include specific calculation requirements in respect of the technical provisions), and, for non-life insurance business, abolished the deferred annual basis to determine the technical provisions. The SORP also confirmed the requirement in FRS 7 (dealing with acquisition accounting) to take into account the time value of money related to the provision for claims outstanding in a business combination. For life insurance business, the SORP introduced the ‘modified statutory solvency basis’, requiring the capitalisation and amortisation of acquisition costs, and the prohibition of the inclusion of investment, resilience, contingency and similar reserves in the insurance liabilities. In my view, this was a confirmation of my conclusions on the expiring lifetime of the type 3 or type 4 single-track reporting approaches: under the SORP, a number of specific prudential balance sheet items were eliminated, despite, as is described in the previous section of this chapter, the intention of the European Commission to introduce or maintain a single-track reporting approach.

Regarding investments, the SORP included the requirements of the insurance accounts directive for the measurement of the assets and the recognition of unrealised and realised gains and losses. There was no requirement to allocate the investment return between the technical and non-technical accounts but listed companies were strongly encouraged to disclose technical results which reflected the longer-term rate of investment return. Under this system, the investment return in the technical accounts reflected the longer-term rate of return of the investments covering the insurance liabilities (including the FFA). This rate could exceed the actual return of the accounting period, showing a negative amount in the non-technical account. To calculate the longer-term rate, the SORP included guidance for different kinds of investments.

7.5.4 Summary and conclusions
The description in this section shows that the FASB continued its work to improve US reporting requirements, by issuing 33 new or revised accounting standards. For insurance business, two standards were issued, in 1992 and 1995, respectively, but the most important pronouncement was issued in 1993 and concerned financial instruments, providing specific accounting policies to be applied to debt instruments and securities. Near the end of the period, this standard was complemented by one on derivatives.

413 As is already noted, this guidance was issued in December 2001 and is discussed in section 8.5.3.3.1.
In the mid-1990s and at the end of the decade, the FASB also prepared, at the request of the SEC, two reports comparing US GAAP and IAS, which identified a number of so-called ‘variations’ between the two sets of requirements. According to several non-US commentators, the FASB reports demonstrated that the US was, despite its stated commitment to the work of the IASC, not at all inclined to adopt IAS as the basis for financial reporting practices in the US or for any US-listed companies.

The main prudential reporting developments in the US during this period were the adoption of the Gramm-Leach-Bliley Act in 1999 (which concluded the ongoing debate on federal versus state insurance supervision), the implementation of the NAIC financial regulation standards, and the development of a risk-based capital approach to solvency supervision. Furthermore, some changes were introduced in respect of statutory accounting principles, strengthening the existing split system for reporting to investors and reporting to prudential insurance supervisors.

In the UK, the financial reporting requirements were influenced by the incorporation of the European insurance accounts directive (although only to a limited extent), the pronouncements of the new accounting standard setter ASB, but, in particular, the SORPs issued by the insurance industry itself. These statements brought some improvements in the financial reporting practices of non-life insurers, but, more importantly, started an intense debate about the quality and necessary improvements in reporting practices of life insurance companies. This resulted not only in the invention of a new reporting methodology by the insurance industry, called ‘embedded value’, but also, near the end of the period, in a revised and expanded SORP covering general insurance business, life insurance business, and investment activities of insurance companies. In my view, the SORP represented the end of the prevailing type 3 or type 4 single-track reporting approaches driven by prudential requirements.

The main UK prudential reporting developments in the period 1990-1999 concerned the continuing alignment of laws and regulation to (amended) European supervisory insurance directives. However, on top of these changes, the UK government also introduced some changes of its own to modernise and update existing legislation, and, at the end of the period, announced fundamental changes in the structure of supervision of the financial services industry as a whole by the creation of the FSA.

7.6 Prudential reporting developments in the Netherlands and the European Community

7.6.1 Introduction
As is described in the previous chapter, the Dutch government decided, at the end of the 1980s, to amend its structural policy and to allow combinations of banks and insurers. Soon after, this led to the formation of two large financial conglomerates: AMEV/VSB, subsequently Fortis, in 1990, and ING in 1991, which triggered the need to create some form of cooperation between the Dutch banking and insurance supervisors. This development, combined with an overview of the prudential reporting requirements for Dutch banks, is presented first, showing that consolidated supervision of Dutch banks was already introduced in 1977 (ahead of the European developments, where this principle was adopted only in 1983) and that the supervisory principles of ‘home country control’ and ‘single license’ for banks were introduced on the EU level in 1989 and on the Dutch level in 1992.

414 See section 6.6.8.
In the period reviewed in this chapter, the insurance business supervision act and the related Administrative Decrees were amended a large number of times, either as the result of the implementation of European directives, or resulting from Dutch developments. A full overview of the amendment acts and revised Administrative Decrees is presented in annex 10. However, most of these were not relevant for the topics of this dissertation, or concerned only minor amendments. Therefore, this section is limited to the major changes or those having an impact on the topics in the scope of this publication, and presents the introduction of ‘home country control’ and ‘single license’ for insurers on the European level in 1992 and on the Dutch level in 1993. In contrast to the supervisory approach towards banks, insurers, however, continued to be supervised on an entity-by-entity level, although the period saw the introduction of the ‘solo-plus’ approach, under which there was also some form of supervision of holding companies of insurance groups.

The new European directives discussed and supported, to my knowledge for the first time, the Dutch single-track reporting approach. For non-life insurers, this meant that the financial reporting requirements were in the lead for all assets and liabilities (type 8), but for life insurers the directives (and the subsequent Dutch implementation acts) kept, for the technical provisions, the prudential requirements in this position. In response to this approach, the Insurance Chamber issued specific regulations and, with this, demonstrated, in my view, a new attitude under which its opinions and supervisory methods were much more disclosed to the public than in the past. Given this prominent position of the prudential requirements, I classify the approach for life insurers as a type 4 approach, although I do admit it is a judgement call.

### 7.6.2 The Dutch supervision on banking activities

#### 7.6.2.1 The prudential reporting requirements for banks

Supervision of Dutch banks by the DNB started, on a voluntary basis, in 1932.\(^{415}\) This resulted in quarterly reporting by the banks to the supervisor, which system was replaced by monthly reporting in 1940. In the meantime, the government had established, in 1937, an advisory committee to investigate whether legal supervisory requirements should be introduced. This, ultimately, led to the ‘Bankwet’ (henceforth, the ‘banking act’) of 1948, giving DNB the responsibility, among others, to exercise supervision of credit institutions.\(^{416}\) This responsibility was subsequently transferred from the banking act to the credit institutions supervision act of 1952.\(^{417}\) It was a temporary act, which was made final in 1956.\(^{418}\) Under the act, the DNB was authorised to prescribe mandatory formats for the balance sheet and the profit and loss account, with accompanying notes, to be applied in the monthly prudential returns.\(^{419}\) The act focused on solvency and liquidity, and the accompanying ‘Handbook’ included detailed regulations regarding the measurement, presentation, and disclosures on assets, liabilities, charges, and income. From 1977 onwards, supervision was performed on a consolidated basis. The 1956 act was amended in 1978, to implement two EU banking directives.\(^{420}\)

\(^{415}\) Coljé (1988).

\(^{416}\) Minister van Justitie (1948), Staatsblad 1948, nr. I 166.

\(^{417}\) Minister van Justitie (1952a), Staatsblad 1952, nr. 35.

\(^{418}\) Minister van Justitie (1956b), Staatsblad 1956, nr. 427.

\(^{419}\) Coljé (1988).

\(^{420}\) Minister van Justitie (1978), Staatsblad 1978, nr. 255.
The first was banking directive 73/183/EEC, issued in 1973, introducing the freedom of establishment and to provide services in other member states.\textsuperscript{421} It was followed, in 1977, by directive 77/780/EEC which focused on the taking up and pursuit of the business of credit institutions.\textsuperscript{422} As in insurance business, credit institutions required an authorisation, should possess adequate minimum own funds (comparable to the minimum guarantee funds for insurers) and were subject to solvency requirements, to be established by the competent authorities in the form of ratios between the various assets and/or liabilities. An ‘Advisory committee of the Competent Authorities of the member states of the European Economic Community’, in practice called the ‘Banking Advisory Committee’, should decide on the contents of the ratios and on the calculation methods.\textsuperscript{423}

With the amendments in the Dutch credit institutions supervision act in 1978, a possibility was created to introduce a specific model for the annual accounts of a credit institution.\textsuperscript{424} The explanatory memorandum noted that the 1970 companies’ annual accounts act,\textsuperscript{425} focused on companies active in all types of industry and was, therefore, not the appropriate legal instrument to introduce such a possibility.\textsuperscript{426} A specific model for banks was established in 1981, in close cooperation between the DNB and the banking industry. Since this occurred before the creation of the financial conglomerates Fortis and ING in the early 1990s, the model is outside the scope of this dissertation and not included in annex 9. However, it should be noted that it was, in my opinion, remarkable that a model for the annual accounts for banks was introduced through a possibility (not even a requirement) in a supervisory act and not through the already existing companies’ annual accounts act. In my view, this is a clear example of the type 4 single-track reporting approach for banks, already mentioned earlier when describing the Dutch financial reporting developments.

The next development in banking supervision on the European level occurred in 1983 with the adoption of directive 83/350/EEC, focusing on consolidated supervision.\textsuperscript{427} The directive was considered as a step toward the overall supervision of a credit institution operating in several member states by the competent authorities in the member state in which it had its head office (the concept of ‘home country control’). It did not result in legislative changes in the Netherlands, because it already complied since 1977, as is noted above. Directive 89/299/EEC defined the amount of own funds of credit institutions.\textsuperscript{428} It formed part of the wider effort by the Basel Committee, described earlier in this chapter in the section on the global and European financial reporting developments. Under the directive, certain assets, such as own shares, intangible assets and participations in credit institutions, had to be deducted from equity to arrive at the available amounts. This was an early application of prudential filters, as described in the previous chapter.\textsuperscript{429} The requirements were subsequently included in the Handbook.

\textsuperscript{421} European Commission (1973a).
\textsuperscript{422} European Commission (1977b).
\textsuperscript{423} The composition and role of this committee are comparable to those of the Insurance Committee, see section 5.4.1.3. The banking equivalent of the Conference of the European Insurance Supervisory Authorities (see section 5.4.1.3) was the ‘Groupe de Contact’.
\textsuperscript{424} Coljé (1988).
\textsuperscript{425} See section 6.4.2.1.
\textsuperscript{426} Tweede Kamer (1970c).
\textsuperscript{427} European Commission (1983b).
\textsuperscript{428} European Commission (1989b).
\textsuperscript{429} See section 6.6.4.1.
The one but last directive issued in this period was the second banking directive 89/646/EEC, issued in 1989.\textsuperscript{430} It completed the liberalisation of the banking business in the EEC, by introducing the full principle of home country control. The solvency ratio directive 89/647/EEC, issued at the same date, complemented this directive.\textsuperscript{431} It was based on an approach of risk-weighted assets, where the resulting ratio should be at least 8% (the same percentage as required in the 1988 accord of the Basel committee, described in the beginning of this chapter), although the competent authorities could prescribe higher ratios as they considered appropriate. While directive 89/646/EEC was implemented by a change in the credit institutions supervision act, described hereafter, directive 89/647/EEC was included in the Handbook.

On 16 June 1992, a bill to implement the second banking directive in the Dutch legislation was submitted.\textsuperscript{432} The explanatory memorandum to the bill noted that, although the essence of banking supervision would not fundamentally change as a result of the implementation of the directive, the introduction of the principles of ‘home country control’ and ‘single license’ necessitated a complete revision of the former act. The act also introduced some new requirements based on specific Dutch developments, of which the legal implementation of the new structural policy, based on the protocol described hereafter, was the most relevant issue in the context of this dissertation.\textsuperscript{433} However, the government did not intend to give the protocol itself a legal status.

During the parliamentary discussions on the June 1992 bill, the scope of the bill was expanded early November 1992 to also implement directive 92/30/EEC on consolidated banking supervision.\textsuperscript{434} This directive replaced directive 83/350/EEC and utilised the consolidation rules included in the seventh directive and the banking accounts directive to define more precisely the methods to be used in prudential supervision exercised on a consolidated basis. Through this linkage, a certain level of alignment was created between the prudential and financial reporting requirements, which, in my view, supported the Dutch type 4 single-track reporting approach. Furthermore, directive 92/30/EEC recognised the existence of financial conglomerates, by requiring cooperation between the supervisors in the different financial sectors in these cases. The explanatory memorandum accompanying the expansion of the June 1992 bill listed the supervisory powers included in the new act to adequately deal with this new structure in the financial services industry. Next to the already existing and continued requirement for advanced approval of participations, these powers included, among others, the possibility to limit: intragroup financial relations, the capitalisation ratio of the group compared to that of its banking subsidiaries, and the risk profile of the group and its composing parts. The objective of these measures was to limit contamination risks, conflicts of interests, double gearing,\textsuperscript{435} and supervisory arbitrage. The memorandum noted that these issues were also high on the agenda of several international supervisory bodies, such as the Basel Committee and the European Commission.

\begin{footnotesize}
\begin{enumerate}
\item[430] European Commission (1989c).
\item[431] European Commission (1989d).
\item[432] Tweede Kamer (1992a), nr. 22665.
\item[433] As is explained in the previous chapter (see section 6.6.8), the new structural policy was initiated by European developments, but not based on any European legislation.
\item[434] European Commission (1992d).
\item[435] Boshuizen described ‘double gearing’ as: “reporting the same equity in different segments in a group, providing a distorted picture of the reality to individual supervisors”. Also: “providing equity by one segment in a group to another, as a result of which total equity seems larger than it is”. See (Boshuizen (2001), p. 450).
\end{enumerate}
\end{footnotesize}
The Second Chamber finalised its discussions on the bill in its meeting of 1 December 1992 and approved the new act, after having first introduced an amendment requiring the different authorities supervising parts of the Dutch financial services industry to intensify their cooperation, in the spirit of the 1990 protocol described hereafter. By doing this, this protocol was, despite the earlier intentions of the government, given a legal basis. Without much debate, the First Chamber followed on 22 December 1992. The new credit institutions supervision act 1992 was published at the end of that year, to become effective on 1 January 1993.

Additional European banking supervisory directives issued in the period reviewed in this chapter concerned three directives introducing changes and refinements of the solvency requirements for banks: these were directives 93/6/EEC, 98/31/EC, and 98/33/EC. They were incorporated in the Dutch legislation through amendments of the 1992 act and/or the Handbook.

7.6.2.2 The 1990 supervisory protocol on the supervision of financial conglomerates

The liberalisation of the structural policy required a cooperation agreement between the DNB (the banking supervisor) and the Insurance Chamber (the insurance supervisor). This was achieved in September 1990 by concluding a protocol, defining the different group structures present in the Dutch financial services world and the responsibilities of both supervisors. It was effective as of 1 January 1990, and provided a number of definitions, including a mixed financial group (in which the banking and insurance activities, combined, represented a considerable interest), and a general mixed financial group (which had neither a predominant banking nature, nor a predominant insurance nature). The characterisation of a group would be determined jointly by both supervisors, based on the required solvency margin of the banking part and that of the insurance part.

The protocol was needed because of the existence of separate supervisors and supervisory regimes for banks and insurers, based on two opposing approaches. This was explained in 2000 by Lemaire, who pointed at the main difference in supervisory style between insurance groups and banks, the first being supervised on a solo-plus basis and the second on a consolidated basis. The solo-plus supervisory approach focused on the individual members of the group, but, in addition, looked at the transparency of the group, the intragroup relationships and positions, the measures to identify (and prevent) double gearing, and the level of autonomy of the management of the financial institution. In Lemaire’s view, this principle difference could basically be explained from the long-term security character of the (life) insurance industry and the more short-term and volatile character of the banking activities. According to him, a pure consolidated approach would imply, to a certain extent, a sort of ‘solidarity’ between the group companies involved in case of financial troubles.

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439 Minister van Justitie (1992b), Staatsblad 1992, nr. 723.
443 DNB and VK (1990).
444 Lemaire (2000).
446 Lemaire (2000).
Such a solidarity, Lemaire continued, might be desirable as it enhanced the stability of the banks, but it was not desirable from the insurance supervisory point of view as this might imply that the (life) insurance company would be the ‘penultimate lender of last resort’ of the losses of the more volatile banks within the conglomerate. In the end, this could mean that the (life) insurance policyholders would have paid for risks foreign to the insurance industry, a situation which had to be avoided by the strict separation of the insurance activities in legal entities. Lemaire concluded that, therefore, the consolidated approach should not be applied to financial conglomerates, at least not covering the life insurance subsidiaries, since these entities were the ones focusing on providing the long-term securities to its policyholders.  

Regarding a mixed financial group, the protocol clarified that the holding company of such a group would not be subject to supervision, unless it was already a supervised institution. Such a holding company should annually submit a schedule, showing the total required solvency margins for the banking part, the Dutch insurance part, and the foreign insurance subsidiaries, and the total available solvency margin for the other subsidiaries. In case of a predominant banking nature, this information had to be delivered to the banking supervisor; in case of a predominant insurance nature, the Insurance Chamber would be the recipient.

In case of a general mixed financial group, the information had to be delivered to both supervisors. The holding of such a group had to possess an available solvency margin of at least the sum of the required solvency margins for its banking and its insurance activities, each calculated in accordance with the applicable requirements under the prudential regulations for each segment. The holding also had to inform the supervisors on each intended acquisition or increase of a share in a banking or insurance company.

The history of this first protocol was described by Hans Bartelds, the CEO of the AMEV at the end of the 1980s. He noted that, when the AMEV and the VSB Groep merged in 1990, no supervisory regulations were in place for such a financial conglomerate. So discussions were arranged between the two companies and the two responsible supervisors, the DNB and the Insurance Chamber. Although it was, from the start, clear, as was explained earlier by Lemaire, that the DNB would continue to supervise the banking activities on a consolidated basis, and the Insurance Chamber would continue to supervise the insurance companies at an individual level, the parties soon realised that arrangements needed to be made to enable assessment of the group’s consolidated solvency position and to gain insight into the financial ties between the group companies. A separate report would need to be provided to both the DNB and the Insurance Chamber on an annual basis. This was the basis for the protocol of 1990. Bartelds characterised the protocol as playing a pioneering role in Europe. It was based on a solo-plus approach: although the holding was not supervised itself, the protocol gave the supervisors the scope to examine the holding company as well as the subsidiaries that were not banks or insurers.

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447 This view was already promoted by the CEA in a note issued in December 1992, stating that supervision of financial conglomerates should not be based on an integrated approach (establishment of consolidated supervision), but on a sectoral approach, linked to a cooperation mechanism between the different supervisory authorities concerned. See CEA (1992).

448 Bartelds (2000).
7.6.3 Legislative developments in the period 1990-1993

In these years, the insurance business supervision act and the related Administrative Decrees were amended several times to incorporate new European directives. The implementation acts are listed in annex 10. The main directives were the second non-life insurance directive 88/357/EEC, and the second life insurance directive 90/619/EEC. Both focused on the ability of insurers to operate, without legal barriers, in another member state in the areas of specific types of insurance products. Apart from the introduction of a limited form of ‘home country control’, these second directives had no particular impact on the financial and the prudential reporting requirements within the scope of this dissertation. Therefore, they are not further discussed.

The other legislative developments were limited. In 1990, an Administrative Decree was issued to replace the ‘European unit of account’ by the ‘ECU’, to accommodate the decisions described earlier in this chapter on the developments in the European Community. The only further relevant amendment in that year was the substitution of the previous Decree on the technical liabilities by a new one, which introduced a mandatory breakdown of these liabilities into specified categories, without, however, detailing the measurement principles to be applied.

Another change in the legislative environment of insurers occurred near the end of 1991, when the Insurance Chamber published a requirement for health insurance companies to establish, if certain conditions were met, an ‘actuariële voorziening ziektekostenverzekeringen’ (an actuarial provision health insurance). This publication related to further amendments in the Dutch health insurance system described in the beginning of this chapter, limiting the risks related to elderly insured beneficiaries under a large number of health insurance contracts, and repealed the former ageing provision. However, if an insurer set his premium level based on an actuarially determined structure (i.e. taking age into account), it was now required to set up a specific provision, the calculation method of which was prescribed in detail which and was based on the present value of future claims minus premiums, similar to life insurance business. It was, to my knowledge, the first time that the Insurance Chamber went into such level of detail in publicly available requirements. The calculation scheme was slightly amended in 1993, as a result of the transfer of certain risks from insurers to the general exceptional medical expenses (compensation) act.

7.6.4 The insurance business supervision act 1993: the implementation of the 1992 third insurance directives

A bill to completely restructure the existing insurance supervisory act was submitted in June 1993. This was considered necessary to adequately implement the third EU non-life and life insurance directives, which is described next.

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450 European Commission (1990c).
451 Minister van Justitie (1990d), Staatsblad 1990, nr. 497.
452 Minister van Justitie (1990c), Staatsblad 1990, nr. 480.
454 See section 6.6.7.2.
455 Verzekeringskamer (1993c).
456 Tweede Kamer (1993b), nr. 23199.
7.6.4.1 The third non-life insurance directive 92/49/EEC

The third non-life insurance directive completed the harmonisation process of prudential supervision of and the internal market for non-life insurance companies in the European Communities.\(^{457}\)

A first proposal for the directive was published in 1990,\(^ {458}\) and two amended proposals in 1992.\(^ {459}\)

The basic elements were the introduction of the concept of a ‘single license’ and the expansion of the concept of ‘home country control’, which was already implemented partially in the second directive. Under these concepts, a non-life insurer with a license in its home country was fully authorised, for all insurance activities, to do business in all other member states. Furthermore, prudential supervision became the sole and exclusive responsibility of the supervisor in the home country, including monitoring the solvency margins and the establishment of adequate technical provisions. In the meantime, these technical provisions for non-life insurers were already harmonised by the introduction of the insurance accounts directive, described earlier in this chapter when presenting the Dutch financial reporting developments. Through a change in the first non-life insurance directive, a direct link between a directive on prudential supervision and the insurance accounts directive was created, the latter prevailing over the former. However, regarding credit insurance activities, the requirements to set up an equalisation reserve, described earlier in this section, were maintained. In respect of solvency requirements, the system was not changed, with the exception that, solely for the purpose of determining the available solvency margin, only undisclosed reserves arising out of the undervaluation of assets could, under certain circumstances, be taken into account by the application of prudential filters: it was assumed that technical provisions would not be over-estimated anymore as a result of the introduction of the insurance accounts directive. The third non-life insurance directive should be implemented no later than 31 December 1993 and brought into force no later than 1 July 1994.

In my view, this linkage between the prudential directives and the accounting directives, in particular the insurance accounts directive, showed that the European legislator was aiming at a single-track reporting approach for non-life insurers, under which the financial reporting requirements for both the assets and the liabilities would be leading (a type 8 approach).\(^ {460}\) To my knowledge, this was the first time that there was a specific European view on this approach. However, as is explained earlier in this chapter when presenting the insurance accounts directive, in substance this did not mean much, as this directive directly hardly included mandatory accounting policies.

7.6.4.2 The third life insurance directive 92/96/EEC

The third life insurance directive completed the harmonisation process of prudential supervision of and the internal market for life insurance companies in the European Communities.\(^ {461}\) It was based on the same principles as the third non-life insurance directive: single license and home country control. As the third non-life insurance directive, the third life insurance directive should be implemented no later than 31 December 1993 and brought into force no later than 1 July 1994.

\(^{457}\) European Commission (1992e).
\(^{458}\) European Commission (1990b). The CEA commented in September 1990 on this proposal (CEA (1990c)). In general, it provided support, but noted that the single license approach required a further harmonisation of the supervisory methods in the member states, to avoid distortion of competition.
\(^{460}\) A paper issued by the European Commission in 2002, presented in section 8.6.6.4.2, showed that a single-track reporting approach was widely adopted in the member states, for non-life as well as life insurance business.
However, contrary to the third non-life insurance directive, the third life insurance directive included detailed principles to establish adequate technical provisions. The reasons for this were explained in the explanatory memorandum. It stated that the insurance accounts directive laid down few rules to the determination of technical provisions in life insurance business. For this reason, it was considered necessary to harmonise national laws to the extent necessary to permit mutual recognition and home country control in this field. It further explained that many different actuarial methods and bases were used in the European Communities, and that a wide variety of products was available. However, comparative studies, in particular by the Groupe Consultatif, had shown that the results of the calculations were often similar where similar products were concerned and that the methods were all based on the same actuarial principles, including that of prudence in the face of uncertainty. The conclusion was that harmonisation on the basis of these actuarial principles would be sufficient. Accordingly, the directive required the technical provisions to be determined using the following principles:

- The amount should be calculated on a consistent basis by a sufficiently prudent prospective actuarial valuation, taking credit for the future premiums due, and taking into account all future liabilities as determined by the policy conditions for each existing contract, including all guaranteed benefits (such as surrender values), bonuses to which policyholders were already either collectively or individually entitled, options available to the policyholder, and expenses, including commissions;
- Under certain circumstances, a retrospective method was allowed;
- A prudent valuation was not a ‘best estimate’ valuation, but should include an appropriate margin for adverse deviation of the relevant factors. The statistical assumptions should be chosen prudently. For the determination of the discount rate, detailed rules were presented;
- The method of valuation should not only be prudent in itself, but should also be so having regard to the method of valuation of the assets covering those provisions; and
- In the case of participating contracts, the method of calculation could (but not should) take into account, implicitly or explicitly, future bonuses of all kinds, in a manner consistent with the other assumptions and with the current method of distribution of bonuses. As is explained hereafter, this particular paragraph had been the topic of considerable debate, in particular with the UK delegation.

Regarding contracts under which the benefits were directly linked to the value of units in an internal or external investment fund or to an index, the technical provisions should reflect as closely as possible that value. However, where some form of guarantees were included, additional provisions could be necessary.

In my view, this linkage between the prudential and the accounting directives was another example of support for a single-track reporting approach. However, in contrast to the non-life insurance directive, the life insurance directive put the prudential requirements, at least in respect of the technical provisions, in the lead. Given this prominent position of the prudential requirements and despite the existence of financial reporting requirements for all other assets and liabilities, I classify the approach for life insurers as a type 4 approach, although I do admit it is a judgement call.

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Through its Groupe Consultatif, the European actuarial profession was actively involved (at the request of the European Commission) in the development of the third life insurance directive. It produced several reports on the calculations of the technical provisions in the member states and, in October 1990, published a report titled ‘A system of actuarial principles for the calculation of technical provisions for life insurance throughout the European Communities’, popularly referred to by Groupe members as the ‘Schiphol principles’, as they were substantially drafted at a meeting held at Schiphol airport in the Netherlands. These principles were eventually carried through as a major part of the final directive.

The detailed rules regarding the calculation of the technical provisions were very much in line with the recommendations of the CEA, which had already submitted its first comments at the very start of the preparatory phase, in April 1990, and after the publication of the first proposal.

The debate in respect of the calculation of the liability for participating contracts was described by Penrose. He referred to the inclusion of “the reasonable expectations of policyholders in respect of future and terminal bonuses”, mentioned in a proposal by the Groupe Consultatif. According to this proposal, these expectations should be taken into account. Penrose mentioned that there was a great deal of confusion about the purpose of this principle during the discussions in a Council working group meeting in January 1992. It was clarified by the UK delegation with reference to actual practices. The discussions continued until May 1992, with a compromise in the end creating an option, not a requirement, to take such bonuses into account. Furthermore, the reference to policyholders’ expectations was omitted. As is described in the next chapter, this change would play an important role in the fall of the UK Equitable.

The adoption of the third directives brought the insurance supervisors of the member states to the conclusion that a deepening of their cooperation was required. To achieve this goal, a protocol was signed at the Conference of the European Insurance Supervisory Authorities in Siena (Italy) on 30 October 1997. It focused on the exchange of information in standardised formats, and repealed a number of earlier protocols concluded between 1974 and 1991 in this area.

### 7.6.4.3 The Dutch implementation of the third insurance directives

The explanatory memorandum to the bill to implement the directives in the Dutch legislation noted that, although a large part of the old insurance business supervision act, adopted in 1986, would be implemented unamended in the new act, several new articles had to be introduced as a result of the directives. One of these concerned the level of life insurance premiums, which – for new business – had to be sufficient to meet the obligations, taking all financial aspects of the insurer into account. In this assessment, reasonable actuarial assumptions had to be applied to determine the premium rates and the related life insurance provisions.

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463 Groupe Consultatif (2003).
464 CEA (1990b).
465 CEA (1991a).
467 See section 8.5.3.3.2.
469 See section 6.6.7.
470 Tweede Kamer (1993b), nr. 23199.
However, the term ‘reasonable’ was not defined, and it is therefore not possible to say anything about a change in the level of prudence based on this terminology. During the discussions in Parliament it became clear that this was, apparently, not the intention, as the government noted that it did not expect changes in practice.

The bill also introduced an expansion of the articles regarding the structural policy, to align the insurance supervisory act with the acts applicable to the other sectors of the financial services industry, in particular on the banking business. On this topic, some debate was held in the Second Chamber, but it was soon decided to postpone the discussions because legislation was in preparation, which is described later in this section. The amendments were adopted by the Second Chamber on 25 November 1993, and by the First Chamber on 8 March 1994. The final act was published in April 1994 and had an effective date of 1 July 1994.

### 7.6.5 The revised Administrative Decrees under the insurance business supervision act 1993

As a result of the adoption of the new act, the existing Administrative Decrees, issued under the previous act, all had to be updated and/or amended. In most cases, this did not result in any significant changes. However, for some topics substantive amendments were introduced.

One new Administrative Decree included revised requirements regarding the prudential returns. The new schedules should be submitted by all life and non-life insurers from the year 1995 onwards. An overview is presented in annex 9. The models for the balance sheet and the profit and loss account were identical to those introduced by the Dutch implementation of the insurance accounts directive, described earlier in this chapter in the section on the Dutch financial reporting developments, and are therefore not reproduced here.

The explanatory memorandum to the Decree noted that the purpose of the new schedules was to align the prudential reporting requirements as much as possible with the revised financial reporting requirements: a single-track reporting approach. Furthermore, the schedules were simplified where possible, and included much less details than in the past. Additionally, the number of public schedules was significantly reduced, while the resulting problem of less information to the public was resolved by including summarising information in the notes to the (consolidated) balance sheet. Finally, non-life insurers were allowed to choose between different sets of schedules for the profit and loss account and underwriting results, depending on the method they applied to account for their investment income: either with the breakdown of this total income into its mandatory components included in the technical account, or in the non-technical account. The new schedules were accompanied by a separate set of mandatory guidance notes, issued by the Insurance Chamber, which noted that the prudential returns had to be prepared in accordance with the provisions of book 2 of the civil code, creating another direct link between the two sets of reporting requirements.

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473 Minister van Justitie (1994b), Staatsblad 1994, nr. 252.
474 Minister van Justitie (1994e), Staatsblad 1994, nr. 478.
475 See tables A9.103.
476 These models are presented in tables A9.104 to A9.108.
The prudential returns continued to include those related to the required solvency margin, which was still based on the requirements in the first insurance directives, and to the available solvency margin. The latter used the prevailing approach of prudential filters, under which the balance sheet was adjusted, in particular by deducting intangible assets from the amount of equity.

A second topic concerned the technical provisions. The new Administrative Decree entitled ‘Besluit technische voorzieningen verzekeringsbedrijf 1994’ (the ‘Decree on the technical provisions insurance business 1994’) included requirements concerning the breakdown and the calculation of these provisions, and the investments covering these liabilities. Although it was issued as part of the supervisory legislation, it referred, regarding the breakdown and the contents of the technical provisions, for each and every individual item to the new financial reporting requirements. In this respect, the explanatory memorandum to the Decree noted that, for non-life insurance companies, this was based on the provisions of the third non-life insurance directive, which referred directly to the insurance accounts directive. Based on this linkage, the government had decided to align the prudential and financial reporting requirements to the maximum extent, giving insurers the maximum possibility to apply a uniform set of accounting principles. However, the Decree continued to allow the Insurance Chamber to issue specific regulations to determine the technical provisions for non-life insurers, as it, for instance, already did for a number of years in respect of health insurers, as is described earlier in this section.

For life insurance companies, the case was different, since the third life insurance directive included specific requirements for the calculation of the technical liabilities, without referring to the insurance accounts directive. Therefore, these requirements had to be included in the Decree, together with the power of the Insurance Chamber to determine the maximum discount rate and prudential margins in the calculations.

The Insurance Chamber used this power in August 1994 to issue the so-called ‘actuarial principles’, which provided mandatory guidance to determine a number of parameters to calculate the technical provisions of life insurance companies. This was, to my knowledge, the first time that the Insurance Chamber issued specific public and comprehensive regulations to determine the life insurance provisions, driven by the requirements in the European directives. The Insurance Chamber gradually became more visible to the public at large and was more open in respect of its views and method in respect of the prudential reporting requirements and of the actual reporting practices of Dutch insurers, as is described later in the section on the actual reporting practices of the selected companies. The actuarial principles regulated:

- The discount rate, which was dependent on the level of certainty of future investment returns and the assets covering the technical provisions;
- The insurance-related parameters such as mortality, disability, lapse, and marriage-rate, for which not only experience from the past, but also expectations about future developments should be taken into account; and
- How to account for expenses, which should initially be determined on the actual levels, but which should also take account of inflation or foreseeable future expenses.

478 See sections 6.6.4 and 6.6.7.
479 Minister van Justitie (1994d), Staatsblad 1994, nr. 448.
480 Verzekeringskamer (1994c).
For the existing portfolio, compensation of surpluses and deficits on these parameters was allowed, under the condition that the actuary of the company performed a so-called “toereikendheidstoets” (an adequacy test) and declared, in a confidential report to the Insurance Chamber, that the total provision was sufficient.

Regarding new business, the principles required the provision to be sufficient on all individual parameters listed above. Compensation was not allowed and any deficit had to be charged immediately to the profit and loss account. Although the principles were already effective for the year 1994, as a transitional measure, the adequacy test for this year could be performed on a high level. As is described later in this chapter when discussing the actual reporting practices of the companies reviewed in this dissertation, the explicit new requirement to take future developments into account made some companies in the insurance industry consider this a reason to treat the impact as a change in accounting policies. How to account for contracts with discretionary participation features, described in the next chapter, was not discussed. Because of the harmonisation of the methods and parameters on the technical provisions, the potential use of prudential filters for this balance sheet item, created in the first life insurance directive of 1979, became redundant.

With the publication of these actuarial principles, the Insurance Chamber abolished its previous requirement of a maximum discount rate of 4%, which it had introduced (but not made public) at an unknown date in the past. The actuarial principles also immediately abolished the existing possibility to build up a provision for guaranteed profit-sharing arrangements in 15 years. This possibility was created early in 1993, i.e. less than two years before, to respond to the increasing use by Dutch life insurers of profit guarantees to enable policyholders to share in the investment returns. According to a circular published by the Insurance Chamber, technical provisions to cover guarantees up to 15% of the insured capital could, from 1993 onwards, be built up on a linear basis in a period of (maximum) 15 years, but any higher guarantees had to be accounted for fully in the year of issuance of the insurance contract. Additional technical provisions were not required in case the insurance liabilities were fully matched by assets with the same maturity and the same returns as included in the contract.

Regarding the mandatory provision for guaranteed profit-sharing arrangements, W. Dullemond (an actuary) noted that this requirement could result in double-counting and overly prudent provisions, i.e. in those cases that an implicit provision was already present for these liabilities and this implicit provision was not released in favour of the explicit provision. Furthermore, he criticised the requirement that, for new sales, all individual assumptions underlying the calculation of the technical provisions had to be prudent, taking away the natural mechanism of compensating deficits on one assumption or in one part of the portfolio with surpluses elsewhere.

481 See section 8.4.4.7.
482 See section 6.6.7.1.
483 See section 6.6.1.
484 Verzekeringkamer (1993b).
485 This period of 15 years was also mentioned in a circular, issued in 1990 (Verzekeringkamer (1990b)), but this document only included the principle that an additional provision should be established in certain cases, and no specific percentages. The 1993 circular explained that, in practice, the adopted and approved maximum was 25%.
486 Dullemond (1994).
In Dullemond’s view, this could, again, result in overly prudent provisions. This comment, with which I fully concur, demonstrates, in my view, that despite all new financial reporting requirements, the predominant reporting regime for life insurers continued to be the prudential one. In other words, for life insurers the prevailing type 4 single-track reporting approach was maintained.

The actuarial principles did not refer to embedded value techniques, described earlier in this chapter in the section on the UK financial reporting developments and discussed further when presenting, in the next section, the actual reporting practices of the selected companies. This did not mean, however, that the Insurance Chamber was not monitoring these developments. In 1994, its employees H.J.M. TEEUWEN and W. EIKELBOOM published the results of a survey, conducted in 1993, on the use of embedded value by Dutch insurers and the potential use of this instrument in insurance supervision. They reported that, at the time, 32 of the 81 life insurers who participated in the survey used embedded value, and another 17 intended to introduce this technique before the end of 1996. Of those who already calculated embedded values, almost all reported the results internally only, and about 80% used it to determine the value of the company (or part thereof). Additionally, about 50% applied the technique to test the adequacy of the technical provisions. Regarding the use of embedded values in insurance supervision, the article concluded that, at the time, the Insurance Chamber had no legal basis to require such calculations and that, if such values would be used in the future, a certain level of harmonisation of assumptions and techniques was required. However, the Insurance Chamber researcher R.C.L. Bakker noted only nine months later that the chamber was gradually taking the position that every life insurer should be able to prepare embedded value calculations, in particular to analyse the changes from year to year in such values and to improve the performance of the company.

The final relevant Administrative Decrees concerned health insurers, with a renewed regulation in respect of the actuarial provision health insurance in 1994, updated at the end of that year, and at the end of 1995. Next to this provision, the Insurance Chamber reintroduced, at the end of 1995, a requirement to establish a ‘voorziening veroudering ziektekostenverzekeringen’ (an ageing provision health insurance). This was considered necessary as a result of changes in the national health insurance system described in the beginning of this chapter, reintroducing risks that were dependent on the age of the insured person. At the end of 1998, with a rectification in the beginning of 1999, the Insurance Chamber updated both provisions to account for recent experience.

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487 Teeuwen and Eikelboom (1994).
489 Verzekeringskamer (1994c).
490 Verzekeringskamer (1994e).
494 Verzekeringskamer (1999a) and Verzekeringskamer (1999b).
Further developments in the supervision of financial conglomerates

The topic of supervision of financial conglomerates, which had started with the conclusion of the 1990 supervisory protocol, returned in the Parliamentary discussions in May 1993, when the new intentions of the Dutch government were made public in a memorandum of the Minister of Finance to the Second Chamber.\footnote{Tweede Kamer (1993a), nr. 22800 IXB, nr. 44.} It referred to the discussions on international level and to the supervisory experience, dealing with groups such as Fortis and ING, and identified the following areas of interest:

- Managerial integration, under which management decisions of a supervised institution were influenced by decisions on the level of a holding company, which was not supervised;
- Organisational integration and transparency of the structure of the conglomerate. This meant that the organisational structure of a group would not always be identical to the legal structure, which could harm effective supervision;
- Conflicts of interest between different parts of the group, which could result in an uneven treatment of external creditors;
- Double gearing, which could result in insufficient capitalisation of a member of the group;
- Contamination risks, resulting in risks flowing from one part of the group to another; and
- Supervisory arbitrage, under which companies were looking for the most cost-effective way of supervision.

For all areas where existing legislation was considered inadequate, new initiatives were announced.

In this debate on potential improvements of supervisory legislation, solutions were not easy to achieve. This was explained in a brochure, issued by the Insurance Chamber in 1993.\footnote{Verzekeringskamer (1993d).} It mentioned that there were no technical methods available at the time to apply an appropriate, practical and conceptually sound consolidated or integral risk approach to financial conglomerates. Therefore, any preference for fully consolidated supervision was an illusion. The solution should be found in a solo-plus supervisory approach, explained earlier in this section.

To address these issues, several changes were made in the years 1994-1996 in the banking and insurance supervisory acts. In 1994, an amendments act was adopted to facilitate the information exchange between the Dutch and international authorities responsible for supervising the entire financial sector.\footnote{Minister van Justitie (1994a), Staatsblad 1994, nr. 235.} Further amendments were made shortly after, to address the issues of managerial integration, and of organisational integration and transparency of the structure of conglomerates.\footnote{Minister van Justitie (1994c), Staatsblad 1994, nr. 278.} It was left to the individual supervisors to exercise their powers and choose their approach, not prescribing any form of consolidated supervision, and focusing on appropriate cooperation between the supervisors in case of financial conglomerates. In other words, it left the Insurance Chamber complete freedom to continue to apply its solo-plus approach. And a final step occurred in 1996 with the adoption of an act to implement the so-called ‘BCCI’ directive 95/26/EC.\footnote{Minister van Justitie (1996b), Staatsblad 1996, nr. 264.}
This directive was the result of the demise of the ‘Bank of Credit and Commerce International’ (the ‘BCCI’).\textsuperscript{500} This bank, established in 1972, was involved in several criminal activities and senior officers were convicted and received lengthy prison sentences. It operated on a worldwide basis, but there appeared to be insufficient international cooperation between the local supervisors to early discover what was going on. The objective of the directive was to reinforce prudential supervision throughout the financial services sector. It determined that the group structure in which a financial institution operated had to be sufficiently transparent to enable effective supervision and improved the possibilities to exchange information between supervisors, nationally and internationally, and with auditors and actuaries. According to the Insurance Chamber, after all these developments the Netherlands was ahead of the international developments in respect of the supervision of financial conglomerates.\textsuperscript{501}

As with the establishment of the first protocol between the DNB and the Insurance Chamber in 1990, it seemed that (the international expansion of) Fortis played an important role in the developments in respect of the supervision of financial conglomerates and the steps taken afterwards. Bartelds explained that, when Fortis acquired in 1993 a controlling interest in the Belgian ASLK,\textsuperscript{502} the group’s operations now included two major banks: the VSB Groep in the Netherlands, under the supervision of the DNB, and the ASLK in Belgium, under the supervision of the Belgian ‘Commissie voor het Bank- en Financiewezen’ (the ‘Banking and Finance Commission’, henceforth, the ‘CBF’).\textsuperscript{503} Lengthy discussions between the supervisors and Fortis resulted in 1995 in the creation of a covenant between the CBF and the DNB regarding consolidated supervision of the banks that were part of the Fortis group (a two-party covenant). A fictitious bank holding company was introduced in order to carry out the traditional consolidated supervision. The central supervisor was the CBF because the Belgian bank was the largest in terms of total assets. The two-party covenant became obsolete when Fortis Bank SA/NV was formed, the parent company of all Fortis banking subsidiaries.

However, this was not the end of the story on joint supervision, Bartelds continued. In 1996, a covenant was signed between the CBF, the DNB, the Belgian ‘Controle Dienst voor de Verzekeringen’ (the ‘Insurance Supervisory Board’, henceforth, the ‘CDV’) and the Insurance Chamber in respect of additional supervision of the Fortis group as a whole, i.e. all subsidiaries of the two parent companies (a four-party covenant). This covenant built on the protocol between the Insurance Chamber and the DNB and the two-party covenant between the CBF and the DNB. Once again, the basic premise of the covenant was the exercised local supervision. The four-party covenant incorporated this principle in accordance with the solo-plus principle discussed above. As with the consolidated supervision of banks, a fictitious holding company was created above the Fortis group for additional supervision purposes. At the time, the Belgian and Dutch parent companies were not part of this group. The creation of a fictitious holding company meant that Fortis’ non-banking and non-insurance activities were also subject to supervision of the four supervisors, as were the activities of the parent companies themselves after the change in the structure of Fortis on 1 January 1998.\textsuperscript{504}

\textsuperscript{500} European Commission (1995a).
\textsuperscript{501} Verzekeringskamer (V1997).
\textsuperscript{502} See section 3.3.3.
\textsuperscript{503} Bartelds (2000).
\textsuperscript{504} See section 3.3.1.
The coordinator of the additional consolidated supervision in the Fortis case was determined by the highest required local solvency margin. As a result, the CBF once again coordinated the supervision of Fortis. The reports required by the four-party covenant were derived from those under the protocol between the DNB and the Insurance Chamber, and the valuation principles were those applied in the consolidated annual accounts of Fortis. In other words, the prudential reports to the supervisors were based on the financial reporting requirements instead of, as would be logical, the prudential reporting requirements. Whether this resulted in different requirements compared to those applied to other Dutch insurers depended on the level of alignment of the accounting policies under the two regimes, discussed later in this chapter when presenting the actual reporting practices of the companies reviewed in this dissertation.

In my view, this was a clear example of a single-track reporting approach, with one important difference to its usual application: in this case, the financial reporting requirements were leading instead of the prudential reporting requirements. Whether or not this approach was combined with prudential filters is unknown, as the reports were confidential and I have not found any additional publications on their contents.

As is described in the next chapter, the covenants formed important input to future European directives on the supplementary supervision of insurance groups and the supervision of financial conglomerates.505

7.6.7 Further prudential reporting developments in the period 1995-1999

Further changes in the prudential reporting environment occurred in 1995 with the adoption of the ‘Wet op het natura-uitvaartverzekeringbedrijf’ (the ‘funeral-in-kind insurance business act’).506 This concluded a debate, which had already started during the parliamentary discussion on the life insurance business act of 1922,507 and had been held during every major revision of insurance supervision since. As a result of the act, the larger organisations carrying on such activities were subject to the supervision of the Insurance Chamber from 1 January 1996 onwards. Further minor amendments in the insurance business supervision act 1993 were introduced by other acts, presented in annex 10. None of these impacted the topics discussed in this dissertation. This was not the case for an amendment adopted near the end of 1999, when the insurance business supervision act 1993 was amended to introduce additional supervisory powers for the Insurance Chamber, but also to shorten the period within which the prudential returns had to be submitted from six to four months and to enable the Insurance Chamber to further decrease this period or ask for interim returns, at its discretion.508 The amendments were the result of the evaluation of the fall of Vie d’Or, presented at the beginning of this chapter.

As far as specific prudential reporting requirements are concerned, two other developments should be mentioned. The first concerned, at the beginning of 1999, the publication of a circular by the Insurance Chamber regarding potential claims related to the millennium change.509 In this document, the chamber urged insurance companies to either establish adequate technical provisions for such claims in their prudential returns (even when this would not be possible under Dutch GAAP).

505 See sections 8.6.2.1 and 8.6.6.2.
506 Minister van Justitie (1995a), Staatsblad 1995, nr. 368.
507 See section 4.4.3.11.
508 Minister van Justitie (1999), Staatsblad 1999, nr. 470.
509 Verzekeringskamer (1999c).
Alternatively, the insurers should set aside part of the insurer’s equity to cover millennium claims. In my view, the first recommendation was remarkable, since it would – to my knowledge for the first time in history – represent a clear breach of the prevailing type 4 and type 8 single-track reporting approaches.

The second development concerned an important change in the actuarial principles for life insurers. In a July 1999 circular, the Insurance Chamber announced revisions of these principles in 2000:

- An explicit breakdown of the technical provisions in an estimate based on realistic assumptions, an amount for actuarial prudence, and an amount to cover investments risks;
- A consistent valuation of assets and liabilities based at fair value;
- A focus on the supervision of appropriate analysis and management of risks; and
- A consistent treatment of the different insurance products.  

As an interim measure, the Administrative Decree regarding the calculation of technical provisions would be amended, giving the Insurance Chamber the possibility to issue binding regulations regarding such a calculation. Using this new possibility, the chamber maintained its strong recommendation to life insurers to apply a maximum investment return of 3% for products with interest-rate guarantees, and required these companies to calculate the liability adequacy test for products sold after 1 August 1999 using a discount rate of 3%, while using a 4% discount rate for products sold before this date. The revised Decree was published on the same day as the circular.  

The implementation of this completely new approach to the actuarial principles is described in the next chapter, but it should already be noted that the July 1999 proposals were, to a large extent, similar to those expressed in an issues paper on accounting for insurance contracts, issued by a steering committee of the IASC in December 1999. The Insurance Chamber did not discuss whether or not its proposed new actuarial principles were compliant with the prevailing European directives. In my view, in particular the idea to measure all assets and liabilities at fair value was in conflict with the existing accounting directives, and its application could only be achieved when the single-track reporting approach would be abolished, unless a wide system of prudential filters was implemented to adjust a large number of assets and liabilities in order to determine the available solvency margins.

Although the Insurance Chamber also announced the establishment of actuarial principles for non-life insurance companies, no such principles were issued in the period reviewed in this chapter. There was, however, guidance published by the Actuarial Society, which anticipated the issuance of such principles to occur in the future. It provided, next to a number of generic guidelines, specific rules of conduct in respect of the determination of premium rates and profit testing of individual products, the adequacy of provisions, and the assessment of the financial and solvency position of a non-life insurer.

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510 Verzekeringskamer (1999d).
511 Verzekeringskamer (1999e).
512 See section 8.6.6.1.
513 See section 8.4.4.7.3.
514 Verzekeringskamer (1999d).
515 AG (1999).
Summary and conclusions

The description in this section shows that, in the period discussed in this chapter, the European supervisory system of both banks and insurance companies was completed by the full introduction of the concepts of ‘home country control’ and ‘single license’. Under this system, European banks and insurers were supervised for all their activities in the European Communities only by the supervisory authority in the member state where its head office was located, and were able to operate, without local limitations or requirements, in all member states once authorised in their home country. The European directives were implemented in the Dutch legislation in 1992 and 1993. However, one important difference in the Dutch supervision of banks and insurers remained: in the first case, supervision was exercised on a consolidated level, and in the second case on a solo-plus basis. The latter meant that the supervision focused, in first instance, on the individual insurer. This ‘solo supervision’ was supplemented by inspection and assessment of the relationship of this company with its parent company and other companies within the group. However, if these other companies were not active as insurers or as banks, they were not subject to direct supervision.

The implementation of the European insurance directives also supported, to my knowledge for the first time, the prevailing Dutch single-track reporting approach. For non-life insurers, the directive aligned the prudential requirements with the financial reporting requirements (included in the insurance accounts directive), with, the latter prevailing (a type 8 approach). This was, however, not the case for life insurers. The third life insurance directive included specific regulations to determine the life insurance provisions, which were subsequently included in Dutch Administrative Decrees. Since the financial reporting requirements for life insurers, both those included in the civil code and those included in the RJ guidelines, referred to these prudential requirements, the latter continued to prevail and determine the reporting practices of supervised life insurers. Given this prominent position of the prudential requirements and despite the existence of financial reporting requirements for all other assets and liabilities, I classify the approach for life insurers as type 4, although I do admit it is a judgement call. The single-track reporting approach for all insurers was further strengthened by the publication of identical models in the Administrative Decrees issued under the civil code, in the Administrative Decrees issued under the prudential legislation, and in the guidelines of the RJ.

The specific regulations to determine the life insurance provisions in the third life insurance directive were translated by the Insurance Chamber into the so-called actuarial principles, which were published in August 1994. In my view, this process forced a change in attitude of the chamber: while it, previously, could work, for a major part, behind the scenes and not make its views and supervisory methods public, the implementation of the third insurance directives resulted in a much more open culture of insurance supervision, in which the Insurance Chamber issued more specific regulations, but, as is described in the next section, also started to participate in the financial reporting debate.

The third important development in the period concerned financial conglomerates. This started, in the beginning of the period, with the conclusion of a cooperation protocol between the DNB and the Insurance Chamber. But it was, in particular, the further development of Fortis, with its combination of banking and insurance activities as well as cross-border mergers, which triggered further developments, in the form of covenants between the four involved supervisors and of European directives to strengthen the cooperation between national and international supervisors.
7.7 Reporting in practice

7.7.1. Introduction
This section discusses the actual reporting developments of the selected companies, comparing them to observations on the reporting practices of the Dutch insurance industry in general. As in the previous chapter, the information in respect of the selected companies is primarily based on the data extracted from the financial statements, which are presented in annex 13.516 Where applicable, additional information is derived from other sources. The data for the insurance subsidiaries are presented for the period 1990-1998. The reason for this is that the financial statements of some companies after this year could not be retrieved from the archives.

To enable continued cross-company comparison, I have therefore designated 1998 as the last year for which my findings for all insurance subsidiaries are presented and discussed. The data for ING start in 1991, the year of its incorporation.

The analysis is again organised by individual topic selected for review, in the following order:

- The size of the financial reports;
- General comments regarding the financial statements, including the more intense debate on the appropriateness of the prevailing type 4 single-track reporting approach and on embedded value accounting. This part also includes 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.

Furthermore, separate discussions are presented in respect of the financial reporting challenges of the financial conglomerates Fortis and ING, and the US GAAP reconciliations of AEGON and ING. As usual, the descriptions and analysis of (changes in) accounting policies are included in the discussions of the individual topics.

Generally, the accounting policies of the holding companies and their Dutch insurance subsidiaries were identical or, at the very least, similar: the type 10 or type 12 single-track reporting approaches. For this reason, the policies of the latter are only discussed when they differed from those applied by the parent companies or deserve special attention.

516 See annex A13.4.
7.7.2 The size of the financial reports

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

Table 7.11 Number of pages of the financial reports in the period 1990-2000

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AEGON (H)</td>
<td>88</td>
<td>100</td>
<td>-</td>
<td>111</td>
</tr>
<tr>
<td>AEGON Leven (L)</td>
<td>157</td>
<td>75</td>
<td>73</td>
<td>-</td>
</tr>
<tr>
<td>AEGON Schade (N-L)</td>
<td>39</td>
<td>24</td>
<td>23</td>
<td>-</td>
</tr>
<tr>
<td>Fortis (H)</td>
<td>102</td>
<td>149</td>
<td>-</td>
<td>220</td>
</tr>
<tr>
<td>AMEV Leven (L)</td>
<td>127</td>
<td>61</td>
<td>65</td>
<td>-</td>
</tr>
<tr>
<td>AMEV Schade (N-L)</td>
<td>56</td>
<td>29</td>
<td>40</td>
<td>-</td>
</tr>
<tr>
<td>ING (H)</td>
<td>86</td>
<td>116</td>
<td>-</td>
<td>187</td>
</tr>
<tr>
<td>Nationale-Nederlanden Leven (L)</td>
<td>214</td>
<td>86</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden (N-L)</td>
<td>60</td>
<td>38</td>
<td>26</td>
<td>-</td>
</tr>
</tbody>
</table>

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’), because of the need to provide specific details on the investment portfolios, which were much larger in the life insurance companies than in the non-life insurers.

The decrease in size of the reports of the insurance subsidiaries from 1990 to 1995 was directly related with the introduction of the new prudential returns in the latter year, requiring much less details than before.

There is no specific explanation of the increase in the size of the financial reports of the holding companies (marked ‘H’). Almost certainly, it is a combination of the growing size and complexity of the companies, as is described in chapter 3, and the expansion of the financial reporting requirements as a result of the implementation of the banking and insurance accounts directives and of the guidelines of the RJ.

7.7.3 The legal financial reporting environment of ING and of Fortis

Before describing the actual reporting practices of ING and Fortis, some general comments need to be made about their legal financial reporting environment.

As is described in chapter 3, both companies were financial conglomerates. This meant that both were faced with the challenge how to report their activities, having to take into account the way in which the requirements of the fourth directive, the seventh directive, the banking accounts directive and the insurance accounts directive had been implemented in the Dutch legislation. Furthermore, they had to prepare financial statements at a time that, as has been described earlier when presenting the Dutch financial reporting developments, there were no unified views whether or not these statements could be prepared on a consolidated basis, and, if so, how this should be done.

On top of these uncertainties, Fortis was confronted with another challenge: how to meet the financial reporting requirements in a legal structure of two parent companies based in two different countries, i.e. Belgium and the Netherlands, under a financial reporting regime that included a large number of member state options? The solution was to present consolidated financial statements for the group as a whole, with the notes disclosing separate balance sheets and profit and loss accounts for the banking and insurance activities.\footnote{Geljon (1994), p. 64.}
Fortis decided it would publish three reports: one for each parent company (the ‘AG 1824 SA/NV’ and the ‘AMEV/VSB 1990 NV’), and one set of consolidated accounts. The latter would be prepared applying uniform accounting principles, the choice of which was complicated by the fact that both Belgian and Dutch legal requirements had to be taken into account. Additionally, changes in European accounting directives had to be considered. Furthermore, there were important differences in accounting principles between the AMEV and the AG. The most important difference related to the treatment of acquisition costs. Under the uniform model, these costs would be capitalised and amortised during the term of the policy.

One example of the impact of the member state options in the European accounting directives was provided by Laureys, who compared the implementation of the fourth directive in Belgium, France, Luxembourg and the Netherlands. The list identified 26 differences between Belgium and the Netherlands on a total of 59 items. While a number of these concerned rather minor issues or topics which are irrelevant for this dissertation, more important differences concerned the scope of the directive (whether or not financial institutions were covered), the definition of participating interests, the need to adjust comparative figures, the presentation of proposed profit appropriation, and the treatment of goodwill.

7.7.4 General comments regarding the financial statements

7.7.4.1 The debate on the single-track reporting approach

In the period described in this chapter, a number of publications were issued comparing and discussing the financial reporting practices of Dutch insurers. Since, as is explained in chapter 2, AGEON, Fortis and ING were the three largest companies, and they were listed, these publications included numerous comments and observations on their financial statements, which are presented later in this chapter when discussing the actual reporting practices of these companies.

The general comments in the publications all referred to the same issue: the relationship between the financial statements and the prudential returns, in other words, the single-track reporting approach. This was a continuation of the debate started at the end of the previous decade by Joosten and Agasi, and by myself. The first comment appeared, in April 1991, in an article published in one of the insurance magazines and written by two staff members and one board member of the Insurance Chamber. They responded to the comments and observations of Joosten and Agasi. The article noted that it was a specific government decision not to prescribe any accounting policies and to maintain the existing type 4 single-track reporting approach. Furthermore, any interpretation issues and comments of the Insurance Chamber on the prudential returns were addressed in private conversations with insurers, and had never resulted in ongoing conflicts. Finally, the authors noted that the chamber did not have any secret or special valuation rules when assessing the solvency position of an insurance company (in other words, it did not apply prudential filters). Although the comments in the article did not bring any news, the fact that it was published was, in my view, revolutionary: until that time, to my knowledge and research, the Insurance Chamber had never reacted in public on publications about the reporting practices of Dutch insurance companies.

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519 See section 2.6.
520 See section 6.7.1.
521 See section 6.7.5.
But these statements of the Insurance Chamber did not satisfy Oosenbrug, who noted in 1995 that the increasing internationalisation and scale of the Dutch life insurers had created a tumultuous development from a conservative reporting practice to one based on much more realistic principles.\(^{523}\) Regarding the potential conflict between reporting to shareholders and to the prudential supervisors, he observed that the first was primarily designed to present a true and fair view of the financial position and the results of the company, while the second focused on the insight in the solvency position. For the latter, there was, usually, more emphasis on ‘worst case’ scenarios than on the economic position of the company. To address this difference in objectives, supervisors could choose two ways to assess the solvency position of a life insurer:

- To determine equity using very conservative approaches, creating an implicit solvency margin: this was the approach in the US;\(^{524}\) or
- To apply prudent but realistic principles, and compare the result with an explicitly required solvency margin: this was the European and the Dutch approach under the prudential insurance directives.\(^{525}\)

Under the application of the Dutch approach, there were, Oosenbrug observed, in practice hardly any differences between the accounting principles applied in financial or prudential accounts: an almost pure application of a single-track reporting approach. And a final explanation was the legal interaction between the two reporting regimes, under which, as is described earlier in this chapter, the civil code referred to the prudential requirements, and vice versa. Despite these observations, which, in my view, effectively stated that the potential conflict noted above did not arise in practice, Oosenbrug continued his opposition, as is described next.

In the beginning of 1997, he issued another publication criticising a single-track reporting approach.\(^{526}\) Although he noted that this alignment had been, apparently, the intention of the legislator, he considered the differences in objectives of the two reporting streams so obvious that distinct requirements should have been adopted.\(^{527}\) He also pointed at the abolishment of an old requirement in 1994, that prohibited the Enterprise Chamber to issue rulings in respect of the financial statements of insurance companies if the Insurance Chamber objected to this; in 1994, this legal provision was replaced the requirement that the latter should be heard before any ruling could be issued. In his view, this was a sign that the government might be inclined to change its mind, and he proposed starting a fundamental debate about the intended structure of reporting requirements for insurance companies.

Oosenbrug continued his battle against existing legislation and practice in 1998.\(^{528}\) He referred to a comment made by the Minister of Finance in Parliament on the aftermath of the Vie d’Or debacle in the Second Chamber (described in the beginning of this chapter), who stated that comparison of the prudential returns of insurance companies was difficult because of the amount of freedom to choose accounting policies.

\(^{523}\) Oosenbrug (1995).

\(^{524}\) As is described earlier, in the US there was a clear distinction between SAP and GAAP. See section 6.5.2.8.

\(^{525}\) See sections 6.6.4 and 6.6.7.

\(^{526}\) Oosenbrug (1997b).

\(^{527}\) This alignment was part of the prudential directives, discussed earlier in this chapter as part of the Dutch prudential reporting developments.

\(^{528}\) Oosenbrug (1998).
The Minister announced that he would consult the Association of Insurers and the Insurance Chamber to investigate whether a certain level of standardisation was required to improve comparability.\textsuperscript{529} Oosenbrug reiterated his earlier views that the legally linked sets of requirements for financial and prudential reporting made it, in theory and in practice, difficult to give a true and fair view of the financial position and results of insurers. Furthermore, the level of freedom in respect of accounting policies enabled companies to introduce frequent changes, making time comparisons complex. To prove his point, he quoted the research of Hoogendoorn over the period 1977-1986, discussed in the previous chapter.\textsuperscript{530} This showed that the frequency of changes by listed banks and insurers was even substantially higher than that of other companies. Oosenbrug noted that this trend continued in the years 1991-1994. Combined with the problems of linked legislation (introducing potentially too much prudence), the inclusion of items in the balance sheet and profit and loss account which should not be there (amounts for the risks and benefits of policyholders), and inappropriate accounting policies for unrealised and realised investment gains and losses (keeping these amounts in reserves, or applying the structural indirect return method), this resulted, in his view, in unacceptable methods of profit equalisation and determination.

### 7.7.4.2 The development of embedded value accounting

The first use of embedded value in the Dutch environment was reported by J. Hanekroot (a financial journalist) in 1990.\textsuperscript{531} He presented the results of such calculations by two investment bankers/brokers, based on desktop research. Salomon Brothers had come up with the following figures for the three listed insurers in the Netherlands:

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock exchange value</th>
<th>Equity value using net premium method</th>
<th>GAAP value using US GAAP\textsuperscript{532}</th>
<th>Embedded value</th>
<th>Embedded value/stock exchange value</th>
<th>Embedded value/equity value</th>
<th>Embedded value/GAAP value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEGON</td>
<td>117</td>
<td>88</td>
<td>132</td>
<td>190</td>
<td>1.62</td>
<td>2.16</td>
<td>1.50</td>
</tr>
<tr>
<td>AMEV</td>
<td>50</td>
<td>67</td>
<td>83</td>
<td>111</td>
<td>2.22</td>
<td>1.66</td>
<td>1.24</td>
</tr>
<tr>
<td>Nationale-Nederlanden</td>
<td>58</td>
<td>67</td>
<td>95</td>
<td>132</td>
<td>2.28</td>
<td>1.97</td>
<td>1.42</td>
</tr>
</tbody>
</table>


The outcome showed that all three companies were significantly undervalued at the stock exchange, resulting from the very conservative accounting policies applied in the financial statements. However, Hanekroot also warned for the high level of subjectivity in making the embedded value calculations, certainly by outsiders, mentioning that Barclays de Zoete Wedd Nederland had performed a similar exercise, which showed that the economic value per share of AEGON was about NLG 220 (vs. NLG 190 in table 7.12) and of the Nationale-Nederlanden about NLG 200 (vs. NLG 132).

\textsuperscript{529} This resulted in the establishment of the Traas committee, noted earlier in the section on the Dutch financial reporting developments.

\textsuperscript{530} See section 6.4.6.2.

\textsuperscript{531} Hanekroot (1990).

\textsuperscript{532} For a comprehensive overview of US GAAP for insurers, see section 6.5.2.8.
In Hanekroot’s view, these analyses by both investment bankers/brokers confirmed the need to amend the accounting policies, as was, to his knowledge, at the time considered by the large insurers: he expected these changes to produce the capitalisation and amortisation of acquisition costs, combined with the continuation of measuring investments at current value. As is described later in this section, Hanekroot’s expectation was partially met in practice.

Regarding the application of embedded value in practice, *Het Verzekeringblad* noted in March 1991 that the managing directors of both AEGON and the Nationale-Nederlanden had stated that they had started using the tool for internal purposes, but that it would certainly take a number of years to obtain sufficient knowledge and experience before they were ready and willing to make the results available to the outside world.533 Oosenbrug noted in 1992 that embedded value was, in substance, nothing else than the recoverable amount of an insurance portfolio.534 Subsequently, he wondered whether there would be easier ways to address the problem of the underestimation of the financial position of a life insurer, and came to the conclusion that the solution was to capitalise and amortise acquisition costs, insofar as these were recoverable from the available margins in the premiums or from other sources, such as penalties charged to the policyholder in case of early cancellation of the contracts or claw-back arrangements with brokers for their commissions. In his view, this approach was much easier than moving into the complex and subjective area of embedded values.

The growing interest in embedded value developments was demonstrated by the number of participants of the fourth PCNA-seminar, held in January 1993 and focusing exclusively on this topic: almost 140 auditors and actuaries attended the event, about equally divided between these two professions.535

Regarding the traditional reporting practices of life insurance companies, A.G. Jacobs, the chairman of the management board of ING, explained in 1994 that these had significant shortcomings to serve as a management tool to monitor the economic achievements of such a company: there was no unified definition of profits, the risks were not taken into consideration, the cost of capital was ignored, and the time value of money was not included.536 Therefore, the focus of the management should be on the economic value, i.e. the present value of future distributable cash flows. In the life insurance business, this meant using embedded value techniques. According to Jacobs, the main driver behind this was the increased pressure from investors to disclose the performance of a life insurer. In response, companies first included realised gains on investments in their profit and loss account, followed by unrealised gains. And when such gains were no longer available after the stock exchange crash in 1987, embedded value was the next step. Using embedded values as a means to show the economic value of a life insurer was however, in Jacobs’ view, not completely new: already in 1948, Campagne noted that the financial position of a life insurer was determined, among others, by its earnings capacity embedded in the existing life insurance contracts portfolio and its sales organisation.537 The main difference between 1948 and the 1990s was that insurers were now capable of making the necessary calculations fast and efficient.

533 Verzekeringblad (1991a).
536 Jacobs (1994).
537 Apparently, Campagne changed his mind subsequently, since he stated in 1953 that the focus should be on the balance sheet. See section 5.4.2.5.
In respect of the publication of embedded values, Jacobs stated that ING was a strong supporter of using such information for management purposes, but that it had no intentions to make the results publicly available. Regarding this position, I should already note that, apparently, ING management developed a different view soon after, since, as is explained later in this section, the company started to disclose embedded value information in 1997, i.e. about three years after Jacobs’ statements.

In my view, Jacobs’ comments made it clear that investors wanted to see significant improvements in the financial reporting practices of insurers. A similar development had occurred in the UK, described earlier in this chapter when presenting the UK financial reporting developments. In other words, investors started to challenge the prevailing type 4 single-track reporting approach of insurers and a type 12 approach of insurance groups. The UK insurers responded by presenting additional disclosures, a trend that was, however, not followed in the Netherlands at the time.

7.7.4.3 General findings on 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 the reviewed Dutch 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 and the profit and loss account, but this occurred only in a limited number of cases.

Comparative amounts were provided and the returns were prepared on a consolidated basis. All companies disclosed information on the available and required solvency margins and on the movements in the reserves. 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 one under the companies’ annual accounts act and its successors. The guideline of the RJ was not followed. The prudential returns were, in all cases, designated as the official financial statements, and all changes in accounting principles at the level of the holding companies were also adopted by the Dutch insurance subsidiaries.

Holding companies
The holding companies all consistently presented consolidated and non-consolidated balance sheets. Regarding the consolidated statements, AEGON used the models under the Dutch civil code, with some amendments: it consistently made a distinction between long-term and short-term liabilities (which was not in the models), and presented, from 1996 onwards, a subtotal entitled ‘subtotal equity plus subordinated loans’.

Fortis used, from 1998 onwards and following the introduction of its ‘twinned share principle’, the possibility in the seventh directive to apply the ‘consortium accounting approach’, under which its two parent companies were included in the scope of the consolidation as if they were subsidiaries. In respect of the structure of its consolidated balance sheet, Fortis changed twice in the period: in the period 1990-1992, the assets and liabilities were grouped by nature. Subsequently, until 1998, it showed separately the assets and liabilities related to its banking and its insurance activities (with subtotals), complemented by a line item called ‘general’ and one called ‘eliminations’.

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538 See section 3.3.1.
539 See section 6.4.2.3.2.
And from 1999 onwards, Fortis returned to its old practice of showing the assets and liabilities by nature. The fund for general banking risks was presented as a separate line item from 1998 onwards, related to the expansion of the banking activities after the acquisition of the ‘Generale Bank’.\textsuperscript{540}

ING, on the other hand, consistently presented its balance sheet by nature of the assets and the liabilities, without making a distinction in banking and insurance business. According to Hilgevoord and Hoogendoorn, ING was clearly inspired by the proposals of the joint banking and insurance working group, presented earlier in this chapter when discussing the annual accounts of financial conglomerates.\textsuperscript{541} ING also consistently added a subtotal, named the ‘group capital base’. In the period 1991-1994, it made, similar to AEGON, a distinction between long-term and short-term liabilities. The fund for general banking risk and the addition to this fund appeared only once, in 1997. All companies showed aggregate amounts for their investments and their technical provisions, with breakdowns in the notes. Fortis presented the amounts related to investments and technical provisions where the policyholders bear the investment risk as separate line items from 1993 onwards, while AEGON started in 1994. ING did not disclose these amounts separately in the balance sheet, only in the notes.

The holding companies also presented, in accordance with the civil code, non-consolidated profit and loss accounts in a condensed format, showing the total amount of the results of subsidiaries as one line item and adding the income and charges of the holding separately, mostly as one (generally insignificant) amount. Regarding the consolidated profit and loss account, AEGON consistently applied the models available for insurers, including, from 1995 onwards, the split into the technical and non-technical accounts, which were presented next to an overall traditional model.

In the period 1990-1994, AEGON presented within the traditional profit and loss account its gross and net operating income (tax being the difference), followed by realised gains and losses on land and buildings and on shares, after tax. ING also applied one format for its consolidated profit and loss account for the whole period, grouping the items by nature. In 1993 and 1994, there was a separate line showing the value adjustments to receivables in the banking operations, and in 1997 for the addition to the fund for general banking risks. In 1993, further additional lines were presented, after the operating result net of tax, for extraordinary income, extraordinary expenditure, and tax on the extraordinary result. Extraordinary income concerned the income and expenditure (on balance) of changes in the accounting policies for the life insurance provision, including the deferral of directly variable acquisition costs, a change in the method of amortising interest rate rebates, a change in the method used in the US, and an addition to the provision due to the increasing life expectancy of policyholders. Extraordinary expenditure concerned the write-down of the book values of the reinsurance subsidiaries NRG and Orion (both in run-off), and an extra addition to the provision for catastrophe risks. Both subsidiaries were deconsolidated in the 1993 financial statements.\textsuperscript{542}

The remaining positive balance of extraordinary items was added to the provision for claims outstanding, leaving a net impact of zero.

\textsuperscript{540} See section 3.3.3.

\textsuperscript{541} Hilgevoord and Hoogendoorn (1994).

As van der Tas noted, the ING format was very similar to the proposals of the joint industry working group, with segmental profit and loss accounts in the notes for banking business and insurance business, the latter subdivided into life insurance activities, non-life insurance activities, reinsurance activities, and general activities.\(^{543}\)

Finally, Fortis presented, as was the case for the balance sheet, different formats for its profit and loss account over the years. In the period 1990-1992, it used the traditional insurance format, with separate lines for the operating result before tax, unrealised gains and losses on investments, realised gains and losses on investments, and (insignificant amount of) special gains and losses. In addition, the technical accounts life insurance and non-life insurance business, and the non-technical account were presented. The latter included, until 1991, the banking activities, the profit and loss account of which was shown separately in 1992. In the years 1993 and 1994, Fortis presented a condensed consolidated profit and loss account, showing the results before tax for its banking business, its insurance business, and its general activities. Additional full profit and loss accounts, prepared under the banking and insurance accounts directives, were disclosed in the notes. And in the period 1995-1998, Fortis showed a condensed profit and loss account with separate lines for the main items of the banking and insurance results, with, as before, full detailed profit and loss accounts per segment in the notes. From 1999 onwards, it left this structure again, presenting a profit and loss by nature, in which similar and banking items were aggregated. The segmental information continued to be provided additionally.

Extraordinary items were only presented by Fortis in 1998, the year of the important acquisition of the Generale Bank. The very material amounts included realised gains in the sale of participating interests (to partially finance the acquisition of the Generale Bank), a strengthening of the life insurance provision by decreasing the discount rate for the whole portfolio to 4% (as a protection against expected lower interest rates on investments), and the set-up of a provision to cover the millennium risks (related to the transition to a new millennium at the end of 1999).

Overall, I classify AEGON’s reporting practice as a type 10 single-track reporting approach, and the practices of Fortis and ING as a type 12 approach.

Regarding the types of reserves presented in the financial statements, all companies presented a share premium reserve, a revaluation reserve, a foreign currency reserve, and a general/other reserve. From 1998 onwards, Fortis also disclosed, as a separate line within equity, the amount of goodwill that had been charged to the reserves since its incorporation in 1990. The movements in the reserves concerned, apart from the impact of transactions with shareholders: the impact of changes in accounting policies, the impact of mergers (for Fortis and ING), unrealised gains and losses on investments, transfers of investment gains and losses to the profit and loss account (related to the applicable accounting policies, discussed hereafter), goodwill, and foreign currency differences. In 1995, both Fortis and ING charged amounts to strengthen their provisions for life insurance business to the reserves, related to the introduction of the actuarial principles of the Insurance Chamber (described in the previous section on the Dutch prudential reporting developments): they required life insurers to explicitly take into account their expectations on the mortality rates in the future, not just those observed to date: they considered this to be a change in accounting policies. No such a charge was observed in the financial statements of AEGON.

\(^{543}\) van der Tas (1993).
Furthermore, ING charged an amount to strengthen the provision for reinsurance business to the reserves in 1991, related to NRG.\(^{544}\)

A statement of source and application of fund was provided by AEGON until 1995, by Fortis until 1992, and by ING until 1993. Subsequently, this statement was replaced by a cash flow statement, prepared by the indirect method. AEGON started presenting this in 1995 and ING in 1994. However, Fortis only presented a cash flow statement from 1999 onwards. The auditors J.G.P.M. Helderman et al. revealed that the indirect method was applied by all large Dutch insurers, with the exception of the Stad Rotterdam.\(^{545}\)

Information about the available and the required solvency margins, introduced already in the 1980s,\(^{546}\) was not generally disclosed in the financial statements (yet), despite the recommendation of the RI presented earlier in this chapter as part of the Dutch financial reporting developments: ING was the only company applying such a practice, for the first time in 1999.\(^{547}\) ING was also the only company disclosing, from 1997 onwards, its embedded values as additional information in its financial reports, a practice that was not applied by AEGON and Fortis.

I have not been able to retrieve the reason for ING's change in approach on disclosing embedded values, but presume it is linked to Jacobs' comments provided earlier in this section on the need to better disclose the financial performance of an insurance company to investors. In that sense, it seems to be in line with the developments in the UK, described earlier in this chapter, to address the tension inherent in a single-track reporting approach.

Comparing these practice developments to the pronouncements of the international, European and Dutch financial reporting requirements (including those issued by the RI), I observe a high level of compliance, with the exception of the lack of publication of the cash flow statement by Fortis. The differences in the models for the balance sheet and the profit and loss account between Fortis and ING can be explained by the lack of specific requirements in this area, leaving the companies a certain level of freedom to make their own choice.

### 7.7.5 The accounting treatment of investments

As was the case in the previous periods, in respect of the accounting treatment of investments a clear distinction needs to be made between the measurement in the balance sheet and the reporting for realised and unrealised gains and losses.

In the balance sheet, all differences reported previously disappeared. Land and buildings were consistently, by all companies reviewed in this dissertation, reported at appraisal value, shares at the stock exchange value or estimated fair value, and debt securities and private loans at amortised cost less impairment losses. For Fortis, this meant that it had chosen to apply Dutch GAAP for its shares, as the Belgian requirements were that shares in the investment portfolios of banks had to be measured at the lower of costs or realisable value.\(^{548}\)

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\(^{544}\) See section 3.4.5.

\(^{545}\) Helderman et al. (2000).

\(^{546}\) See sections 6.6.4.2 and 6.6.7.2.

\(^{547}\) Whether or not such information was included in the management report is outside the scope of this dissertation.

\(^{548}\) KPMG (1993).
For the receivables in its banking book, it was not clear which choice Fortis had been made, since the accounting policies did not reveal whether it applied Belgian GAAP (under which an undisclosed reserve by decreasing the value of the assets was allowed) or Dutch GAAP (under which such a policy was not allowed, but an undisclosed VAR under the liabilities was permitted).

For the treatment of gains and losses on investments, however, significant differences could still be observed. Unrealised gains and losses were reported directly in the reserves by all companies reviewed in this dissertation. Only Fortis disclosed its impairment policy: losses were reporting in the profit and loss account, and reversed if appropriate. The impairment test was carried out per object for land and buildings, and on a portfolio level for the other investments reported at current value. The differences between the companies related to the treatment of realised gains and losses.

Fortis reported all amounts in the profit and loss account until 1992, irrespective of the nature of the investments. From 1993 onwards, it maintained this policy for land and buildings and for shares, but amortised realised gains and losses on sold fixed-income investments over the remaining life of the sold instruments in case they were replaced by similar investments (these were so-called ‘exchange transactions’); if this was not the case, the gains and losses were reported in the profit and loss account. Its insurance subsidiaries the AMEV Leven and the AMEV Schade reported all realised amounts in respect of land and buildings and of shares also in the profit and loss account, and amortised the amounts in respect of fixed-income investments over five years; in 1991, they refined this policy and used the remaining terms of the sold instruments.

ING also changed its accounting policies over the period. Realised gains and losses on land and buildings and on shares were reported in the reserves until 1996, and subsequently in the profit and loss account. Until 1992, results from the sale of fixed-income instruments were amortised in case of exchange transactions, and included for the full amounts in the profit and loss account if this was not the case. Subsequently, the results from all sales were amortised. The insurance subsidiaries the Nationale-Nederlanden Leven and the Nationale-Nederlanden Schade systematically reported realised gains and losses from the sale of land and buildings and of shares in the profit and loss account, and amortised results from the sale of fixed-income instruments in the profit and loss account over the remaining term of the sold investments. The 1997 change in accounting policy for realised gains and losses from investments was explained to achieve “greater conformity with IAS”, without detailing which specific standards this referred to.

As is described earlier in this chapter in the section on the Dutch financial reporting requirements, there was, at the time, no comprehensive international accounting standard dealing with financial instruments. There was only IAS 25, which was quite flexible, and all attempts to improve it had not yet been successful. It was, therefore, in my view relatively easy to comply with this standard, and the reference did not mean much in practice.

Assessing the policies of Fortis and ING in the mid-1990s, van der Tas noted that the 1995 ING policy on realised gains and losses on investments in land and buildings and in shares was similar to that of the ‘Achmea’ and the Delta Lloyd; on the other hand, the Stad Rotterdam had started, in 1995, to include the amounts in the profit and loss account instead of in the reserves.\(^{549}\)

\(^{549}\) van der Tas (1996).
As far as AEGON is concerned, it amortised, consistently for the whole period, realised gains and losses from the sale of fixed-income investments over the estimated remaining life of the sold instruments. The same policy was applied by its insurance subsidiaries the AEGON Leven and the AEGON Schade. For the results on the sale of land and buildings and of shares, all three companies reported the amounts in the profit and loss account until 1994. Subsequently, AEGON applied the structural indirect return method for its life insurance activities (as did the AEGON Leven) and expanded this approach to all its activities in 1997; in that year, the AEGON Schade started to use this method as well.

This new accounting policy was announced in a press release issued on 11 November 1994, in which AEGON stated that the new methodology enabled a good insight in the result of the company, and was aligned with approaches accepted elsewhere.\textsuperscript{550} Furthermore, it explained that all relevant amounts and assumptions would be disclosed. The press release was not specific in respect of its reference to the UK. However, given the similarities between the approach now adopted by AEGON and the one introduced in the mid-1980s by the Eagle Star,\textsuperscript{551} I consider it highly likely that the Eagle Star approach has been a source of inspiration to develop the AEGON approach.

The new policy was discussed by Bouma in the beginning of 1995.\textsuperscript{552} In his view, the new system was an improvement, since it moved away from the traditional methods focusing on the realisation concept that had little relevance for an institutional investor such as an insurance company, and that was open for manipulation. Furthermore, the new policy resulted in a better matching between income (i.e. investment returns) and charges (i.e. interest accretion on the technical liabilities and profit-sharing based on interest rates). From these perspectives, he considered the new system to be compliant with the provisions of the civil code.

The details of the new accounting policy of AEGON were explained by H.B. van Wijk, at the time the CFO of AEGON, and J. de Boer.\textsuperscript{553} The underlying reason was to enable the company to show the long-term returns on all investments in a balanced way in the profit and loss account, to improve the market value of its shares. They considered this goal achievable by investing in land and buildings and in shares, which both provided a better long-term return than debt securities, but, at the same time, by eliminating the short-term volatility in results from the profit and loss account. The new accounting policy would also remove the pressure on management to realise short-term investment gains, which might not be in the interest of the shareholders in the long-term.

The new system included the following five steps:

- All realised gains and losses were accounted for in a revaluation reserve, as was already the policy for unrealised gains and losses;
- The calculation of a long-term total return percentage on land and buildings and on shares was based on a moving average over 30 years;
- The calculation of the amount of the long-term total return was obtained by multiplying this percentage with the average value of the portfolio over the last seven years;

\textsuperscript{550} AEGON (1994).
\textsuperscript{551} See section 6.5.3.4.
\textsuperscript{552} Bouma (1995).
\textsuperscript{553} van Wijk and de Boer (1995).
• The calculation of the amount of the long-term indirect return was produced by deducting the amount of the direct return (rental income and dividends) from the amount of the long-term total return; and
• The transfer of the amount of the indirect return from the revaluation reserve to the profit and loss account, as long as this reserve remained positive.

The new accounting policy of AEGON was not fully supported in the accounting literature. Objections were raised by the auditor G.J.M. Braam, who considered the system in conflict with the legal requirements in the civil code and feared that it opened the door for profit equalisation.\textsuperscript{554} Van Wijk immediately responded that the new system was not in conflict, but fully compliant with the requirements in the civil code, since it matched charges with income.\textsuperscript{555} Furthermore, it was based on an objective method and, therefore, not subject to profit equalisation. The views of Braam were shared by Oosenbrug,\textsuperscript{556} but rejected by Beckman,\textsuperscript{557} which triggered another reaction from Oosenbrug in which he explained that the system was against the realisation principle.\textsuperscript{558} Furthermore, he argued, it was completely in conflict with the requirements to show, in annual accounts, the annual results of a company. If the disclosure of long-term total returns was relevant – which he supported – it should be part of the management report, and not incorporated in the financial statements themselves through unacceptable accounting policies.

The status of accounting for (un)realised investment gains and losses by the large Dutch insurers at the end of the period was explained by Helderman et al.\textsuperscript{559} They noted that, next to AEGON, also the Achmea, the Delta Lloyd (in 1999 named the ‘DLNO’) and the ‘Interpolis’ applied the structural indirect return method. On the other hand, ING included all realised gains and losses on land and buildings, as well as on shares in the profit and loss account.

Comparing the reporting practices with the Dutch financial reporting requirements, my conclusion is that, despite the distinct differences between the companies, all complied because of the high amount of freedom in both the Dutch legislation and in the guidelines of the RJ, as is explained in the section describing these requirements.

7.7.6 The accounting treatment of technical provisions

General observations
As is noted earlier in this section, all companies provided a breakdown of the technical provisions for the period, and, from 1995 onwards, presented a separate line in the balance sheet or in the notes for the technical provisions for life insurance policies where the investment risk was born by the policyholders. From 1995 onwards, also separate provisions for profit participation and rebates, other technical provisions, and an equalisation provision were shown, if applicable, although the accounting policies for none of these categories were disclosed. And AEGON showed consistently the split between the liabilities from annuity business and life insurance business.

\textsuperscript{554} Braam (1996).
\textsuperscript{555} van Wijk (1996).
\textsuperscript{557} Beckman (1996).
\textsuperscript{558} Oosenbrug (1997a).
\textsuperscript{559} Helderman et al. (2000).
AEGON also presented, as part of the breakdown of the technical provisions, the deducted amounts for the unamortised interest rate rebates and the deferred acquisition costs, which were, from 1995 onwards, split into life and non-life insurance business. Fortis and ING reported deferred acquisition costs as assets. Capitalised interest rate rebates were only shown as a deduction of the liabilities by ING in the period 1991-1994: no disclosures were provided for the subsequent years. Fortis did not show these amounts at all. In line with the prudential models, all insurance subsidiaries presented the reinsurers’ share in the technical provisions as an asset until 1994 and as a visible deduction from the gross liabilities from 1995 onwards. In contrast, the holding companies deducted this share visibly from the gross liabilities during the whole period, where AEGON was the only company which disclosed the split between life and non-life insurance business, from 1995 onwards.

**Life insurers**

In respect of the accounting principles to determine the life insurance provisions, the companies reviewed in this dissertation introduced a number of significant changes, in particular in respect of the accounting treatment of acquisition costs.

AEGON started, in 1990, to capitalise and amortise deferred acquisition costs. Its gross liability was determined using the assumptions in the contracts at inception under the net premium method. The deferred acquisition costs were amortised over a period not exceeding the premium payment period; for certain US-style products, the amortisation was in proportion to the emerging gross profits on the contract in line with US GAAP. The adequacy of the net balance of the provision minus the deferred acquisition cost was tested every year and the provision was strengthened in case of a deficit. A similar policy, tailored to the Dutch environment, was adopted by the AEGON Leven. The approach adopted by AEGON in 1990 was also applied, from its creation in 1990 onwards, by Fortis and its subsidiary the AMEV Leven. In contrast, ING maintained its pre-1990 policy to use the net premium method with modern mortality tables for its Dutch operations; for the other activities, it applied locally approved methods and assumptions, which were, generally, consistent with the net premium method. However, in 1995 ING aligned its approach with that of AEGON and Fortis, and also started to capitalise and amortise acquisition cost with annual adequacy testing. The same applied to its subsidiary the Nationale-Nederlanden Leven.

These accounting policy changes introduced in 1990 were discussed by Dullemond at a seminar organised by the PCNA in 1992.\(^{560}\) He noted that, at that time, capitalised acquisition costs represented 4.2% of the life insurance provision at AEGON, and 3.3% at Fortis. This difference could be caused by the fact that Fortis applied a less wide definition for these costs, including only commissions and medical examinations. AEGON, on the other hand, included “all cost varying and directly related to the production”. This issue was also raised by van der Tas in his review of the reporting practices of large life insurers in 1994 and 1995.\(^{561}\) He noted that the amortisation methods of deferred acquisition costs varied, and the components of these costs were not always disclosed. These observations were shared by J.P. Stam, based on his review of the 1995 annual accounts of 15 insurers (including AEGON, Fortis and ING), jointly representing 91% of the total assets of the industry.\(^{562}\) His research revealed the application of eight different methods.

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\(^{560}\) Aarts and Hilderdink-Briggeman (1992).

\(^{561}\) van der Tas (1996).

\(^{562}\) Stam (1997).
Another change concerned the assumptions used to determine the life insurance provision. In 1994, Fortis specified that, from that year onwards, it took, in its adequacy policy, future levels of mortality, interest and expenses explicitly into account. The same applied to the AMEV Leven, which, in 1994, specifically referred to the actuarial principles issued by the Insurance Chamber. Van der Tas observed that Fortis and ING reported the creation of additional provisions in 1995 for mortality risks, related to the introduction of the new financial reporting requirements for insurers under the actuarial principles introduced by the Insurance Chamber, as described earlier in this chapter when presenting the Dutch prudential reporting developments. As is noted in that section, both companies classified this as a change in accounting policies and charged the amounts to equity. However, others applied a different approach, charging the amounts to operating results, extraordinary results, or spreading the charges over time. Neither the financial statements of AEGON, nor those of its subsidiary the AEGON Leven, made specific reference to such changes.

The discount rates in the calculations of the companies reviewed in this dissertation are presented in the next table.

Table 7.13 Actual discount rates to determine the life insurance provisions in the period 1990-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AEGON</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>AEGON Leven</td>
<td>2.5-4.5%</td>
<td>4.04%</td>
<td>4.02%</td>
<td>-</td>
</tr>
<tr>
<td>Fortis</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>3.0-6.5%</td>
</tr>
<tr>
<td>AMEV Leven</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>ING*</td>
<td>3.4%</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
</tr>
<tr>
<td>Nationale-Nederlanden Leven*</td>
<td>3.97%</td>
<td>4.06%</td>
<td>ND</td>
<td>-</td>
</tr>
</tbody>
</table>

Note*: the percentages refer to the Dutch operations.
Source: the percentages are derived from annex 13.

This table shows that the level of disclosure of this important parameter to determine the life insurance provision had decreased significantly compared to the past. I have not found any explanations on this change. Therefore, no firm conclusions are possible, although, for the holding companies, it could be related to the international expansion of the companies, as is described in chapter 3, which made the disclosure of an average discount rate for the whole portfolio less meaningful.

Non-life insurers
All companies active in non-life insurance business showed a provision for unearned premiums, supplemented, where applicable, by an ageing provision for accident, health and disability insurance business. As had been the case in the previous period, 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. Fortis noted, from 1995 onwards, that the provisions were calculated under local GAAP with an annual adequacy test. 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 amounts for IBNR and claims handling expenses. Again, Fortis referred to local GAAP and an annual adequacy test.

van der Tas (1996).
From 1998 onwards, AEGON added a catastrophe provision for agricultural insurance risks. 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. In the period 1991-1993, before it left this type of business, ING also presented a separate fund for professional reinsurance business.

One special type of non-life insurance risk required attention near the end of the 1990s. It concerned the accounting approach for claims resulting from the millennium transition. To cover such claims, the size of which was completely unknown, the insurance industry created a safety net in the form of a special purpose vehicle, named the ‘Nederlandse Millennium Herverzekeringsmaatschappij’, henceforth, the ‘NMH’. This company acted as a voluntary reinsurer for participating companies, covering a maximum amount of NLG 1 billion. Payment of the reinsurance premium was not required, and could be replaced by an irrevocable guarantee.

Immediately after the incorporation of the company, the Insurance Chamber issued a circular, making it clear that it expected non-participating companies to establish a technical provision for at least the amount of premium they would have paid to this reinsurer, if they would participate. The Association of Insurers reacted soon after, informing its members that, since the Insurance Chamber had not mentioned a specific year in which insurers had to account in accordance with the circular, there was no requirement to include any charges in the profit and loss account in 1998. However, it did expect companies to disclose their accounting treatment.

This circular was followed by an audit alert, issued by the NIVRA, in which it supported the views of the Association of Insurers. Accordingly, it was considered acceptable to report only an off-balance sheet commitment in the 1998 annual accounts. However, the alert also noted that, at some point in time, the charges had to be reported in the profit and loss account, in accordance with the guidelines of the RJ reported as ordinary or extraordinary charges. Debiting the amounts to equity was considered inappropriate. A review of the 1998 financial statements of a number of large insurers, included in the archives of the NIVRA-SVP, revealed that some companies had reported the issued guarantees as off-balance sheet commitments, some had created technical provisions (Fortis and ING), one company had designated part of its equity, and one company (AEGON) had not disclosed its accounting treatment. Near the end of 1999, the Association of Insurers issued another circular, recommending its members to include the premium to the NMH as a charge in the 1999 profit and loss account, if this had not already been done earlier. Again, the 1999 annual accounts of AEGON did not reveal which accounting method it had adopted in respect of this obligation.

564 See section 3.4.5.
566 Verzekeringkamer (1998c).
567 Verbond (1999a).
568 NIVRA (1999).
569 SVP (1999).
570 Verbond (1999b).
Some observations regarding the level of prudence applied by the Dutch non-life insurance industry were provided by Oosenbrug in 1994.\textsuperscript{571} He noted that the run-off result of the provisions for claims outstanding (i.e. the surplus or deficit after all claims were settled compared to the first estimates of the liability) in 1992 amounted to a surplus of over six per cent of the provisions at the beginning of the year, over 180\% of the technical results, and of about two-thirds of the results before tax. Furthermore, comparing the run-off results and the technical results (i.e. the actual underwriting results presented in the profit and loss account) for a number of years, he observed that provisioning had been more prudent in good years than in bad years. In his view, this confirmed the analysis provided by Hoogendoorn and others that accounting policy choices were used for earnings-management.\textsuperscript{572}

In respect of compliance with Dutch GAAP, I conclude that all presentation requirements were met. For Fortis and ING, it is clear that also the new actuarial principles of the Insurance Chamber were taken into account; for AEGON, no conclusion can be drawn, as its accounting principles and its reporting on the impact of the new requirements, if any, were not sufficiently clear. Whether or not the new regulations on the discount rate were applied is unclear as well, as the disclosures on this important parameter were either absent, or very general.

\subsection*{7.7.7 The accounting treatment of long-term employee benefits}

In contrast to the findings of the previous period, the holding companies reviewed in this dissertation all disclosed the accounting treatment of long-term employee benefits, although in varying degrees of clarity.

AEGON stated in the period 1990-1994 that the Dutch liabilities were included in the life insurance provision, but provided no information on the other long-term employee benefit plans. Subsequently, it reported that the UK and US liabilities were defined benefit plans, for which the liabilities in respect of future salary increases were taken into account, and that the other plans were defined contribution plans; the liabilities of the Dutch plans were not mentioned. However, given the usual practices in the Netherlands to include the liabilities for such plans in the life insurance provision and based on the finding that the amounts related to long-term employee benefits that were included in these provision were disclosed in the period 2002-2004, I think it is fair to assume that, between 1994 and 2002, the practice of the early 1990s was continued, and that the Dutch liabilities were still part of the life insurance provision. Concerning the non-Dutch liabilities, it is important to note that the Dutch-US GAAP reconciliation of AEGON did not mention any differences. Based on this finding and the description of the accounting policy from 1995 onwards, I conclude that it is highly likely that AEGON based its calculations on the US standard FAS 87.\textsuperscript{573} It did not refer to the corridor in that standard.

Fortis reported for the full period that the calculations were similar to FAS 87, using a 10\% corridor. ING disclosed in the period 1991-1997 that the liabilities concerned those obligations which were not already covered elsewhere, but did not reveal how these were calculated. From 1998 onwards, ING stated that the liabilities were based on IAS 19, discussed earlier in this chapter as part of the Dutch financial reporting developments, using a 10\% corridor.

\textsuperscript{571} Oosenbrug (1994).
\textsuperscript{572} For a brief overview of this topic, see section 2.3.6.
\textsuperscript{573} See section 6.5.2.4.
The Dutch insurance subsidiaries provided no disclosures about their long-term employee benefit plans.

The description of the actual reporting practices shows that all companies used, near the end of the period, the employee benefit standards of the IASC or the FASB, which was, from 1998 onwards, explicitly allowed by the RJ. Before that year, there were no explicit RJ pronouncements on the topic.

7.7.8 The accounting treatment of taxes
In respect of deferred tax, AEGON disclosed that it calculated the liability in the full period on a discounted basis, with the tax rates varying between nil and the actual rate. In the years 1990-1994, it mentioned specifically that there was no tax provision for the remaining part of the fiscal equalisation reserve, a disclosure that was not provided subsequently. The Dutch insurance subsidiaries reported that they were part of a fiscal unity and did not present an accounting policy description.

Fortis reported that it provided for all temporary differences, but it did not disclose the treatment of the remaining fiscal equalisation reserve. It used the effective tax rate for the period 1990-1998, and the enacted rate subsequently. Its Dutch insurance subsidiaries disclosed that they used the current rates, but did not provide for the remaining fiscal equalisation reserve.

ING also provided for all temporary differences, but this included all tax-permitted reserves. It applied the actual rates from 1991 to 1998, and subsequently used the expected rate at settlement date. Its insurance subsidiaries only disclosed that they were part of a fiscal unity.

As is described earlier in this chapter when presenting the pronouncements of the RJ, it was not until 1996/1997 that final standards on deferred tax accounting were issued. Before these years, there were only draft guidelines and generic requirements in the legislation. However, based on these draft guidelines, the legal requirements and taking into account the pronouncements of the Dutch auditing profession issued in the early 1960s, also presented earlier in this chapter, I conclude that the approaches adopted by the companies complied with Dutch GAAP, with a possible exception for deferred tax on the fiscal equalisation reserve of insurers. Before the issuance of the final RJ guideline on the annual accounts of insurance companies in 1998, the RJ pronouncements did not specifically refer to those reserves, and the initial exposure drafts on deferred tax of the TO excluded these reserves from the scope. It was only after 1998 that full clarity was provided that a deferred tax liability on the fiscal reserves of insurers had to be formed.

7.7.9 The presentation of segment information
All holding companies presented, during the full period, profit and loss accounts per business line and related data per geographical segment. Additionally, Fortis consistently provided balance sheets per business line (including the amount of equity per segment), a practice that was followed by ING from 1993 onwards (but not before) as a result of the adoption of the act to implement the banking accounts directive (described as part of the Dutch financial reporting developments). The insurance subsidiaries limited themselves to the segment information required by the mandatory prudential reporting schedules.

In my view, the reporting practices of the holding companies reviewed in this dissertation were fully compliant with the requirements of Dutch GAAP.
7.7.10 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 visibly charged to the reserves. AEGON and ING disclosed that realised results on the sale of participating interests were directly booked in the reserves as well.

AEGON reported for the full period that the amount of goodwill at acquisition date was determined based on its own accounting policies, taking 'VOBA' into account. The same applied to Fortis. ING presented no details on the calculation of the goodwill. In respect of the insurance subsidiaries, the AMEV Leven and the AMEV Schade disclosed that they charged goodwill to the reserves, without further details. The insurance subsidiaries of AEGON and ING provided no information at all.

The reporting practice to charge goodwill directly to the reserves was compliant with Dutch GAAP, but deviated from the trend described in the section on the Dutch financial reporting practices, showing an increasing appetite of Dutch listed companies to capitalise and amortise the item.

7.7.11 US GAAP reconciliations
Reconciliations of equity and net profit from Dutch GAAP to US GAAP were provided for all years by AEGON, and, from 1997 onwards, by ING, related to its listing at the NYSE. Regarding AEGON, Vergoossen noted that the company had adjusted its accounting policies eight times in the period 1985-1994, to align them better to US GAAP. This occurred, in particular, in 1990, by the capitalisation and amortisation of acquisition costs, and the inclusion in the profit and loss account of realised gains and losses on land and buildings and on shares. However, even after these changes there was still a considerable difference in equity because of the different treatment of land and buildings, goodwill, and the technical provisions life insurance, and equity on a US GAAP basis at the end of 1990 was about 10% higher than under Dutch GAAP. On the other hand, the net result under US GAAP over 1990 was about 13% lower because of the need to depreciate both land and buildings and goodwill. From 1995 onwards, the equity reconciliation of AEGON showed another significant difference, which related to the accounting treatment of fixed-income securities. As a result, US GAAP equity in that year was almost 17% above Dutch GAAP equity. However, the US GAAP result was almost 23% below that calculated under Dutch GAAP.

The equity adjustments of ING showed a number of adjustments similar to those of AEGON, but also others. Additional differences were presented in respect of the general provisions, catastrophe and other insurance provisions, employee benefits, dividends payable, and the fund for general banking risks. At a result, the 1997 equity under US GAAP was almost 27% higher than under Dutch GAAP. In that year, the net result was also increased, by over 31%, in particular because of the realised results on the sale of investments.

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574 As is explained in section 6.5.2.5, ‘VOBA’ (the ‘Value Of Business Acquired’) represents the difference between the fair value of an acquired insurance portfolio and its (higher) liability under the prudential reporting requirements. The item is presented as an asset and amortised.
575 See section 3.4.5.
7.8 Summary and conclusions for the period 1990-1999

7.8.1 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?

Regarding the developments of the companies reviewed in this dissertation, the two types of important events were the formation of the financial conglomerates Fortis and ING, and the continuing national and international expansion of all three groups. As a result, ING became the dominant market leader in the Netherlands, with AEGON and Fortis also being in the top rankings of the market. The creation of the Dutch financial conglomerates was enabled by the liberalisation of the structural policy at the end of the previous decade. However, it occurred at a time when there were no European or Dutch requirements or recommendations on the financial reporting structures for or the methods of supervising of such groups. As is described hereafter, this created several challenges in practices and triggered a number of developments, both in respect of financial and prudential reporting requirements.

7.8.2 The European and global reporting developments
Similar to the previous period, the largest amount of developments on the European and global levels occurred in the area of financial reporting requirements.

On the European level, the EU completed its set of accounting directives by issuing specific requirements for the financial statements of insurance companies. As was the case in the other directives, the insurance accounts directive introduced mandatory formats for the balance sheet and the profit and loss account of an insurance company and a number of mandatory or permitted accounting policies, often in the form of options for the member states. Also, the European Commission started a debate in the early 1990s, continuing during the period, on a fundamental reform of the European financial reporting framework, considering the use of IAS for the financial statements of European companies.
This European debate on the potential future use of IAS was actively supported by the FEE, is presented in detail in the next chapter, and is, in my opinion, the main driver of the financial reporting developments in the early 21st century, described in the next chapter.

On the global level, the IASC continued its work by issuing a number of new or revised pronouncements, in particular in the area of the removal of options and the completion of a set of core standards, agreed with the IOSCO. These activities showed, in my view, an increasing focus of the IASC on the information needs of investors. At the end of the period, the IASC had issued a total of 39 (revised) standards and 23 interpretations. The overview of the Dutch financial reporting developments, presented later in this section, shows that the IASC pronouncements were, generally, incorporated in the Dutch guidelines of the RJ, without significant changes, and, therefore also demonstrated more attention for the interests of investors. For this reason, I consider the activities of the IASC as the second of the two most important developments in the period. Whether or not the increased investor focus created pressures on the prevailing type 4 single-track reporting approach is discussed later in this summary when presenting the Dutch financial reporting developments.

In respect of prudential reporting requirements, the EU issued the third non-life insurance directive and the second and third life insurance directives, completing its regulatory framework for insurance supervision and the full introduction of the principles of ‘single license’ and ‘home country control’. The most important global developments concerned the activities of the Basel Committee in respect of banking supervision and the establishment of its insurance counterpart the IAIS, as well as the creation of the Joint Forum on Financial Conglomerates to deal with this new phenomenon.

7.8.3 The developments in the US and the UK

In the US, the activities of the FASB in respect of issuing financial reporting requirements with a focus on investors and creditors continued: 33 new or revised standards were adopted. On insurance, two standards (FAS 113 and FAS 120) were issued, in 1992 and 1995, respectively, but the most important pronouncement was issued in 1993 and concerned financial instruments (FAS 115). In the mid-1990s and at the end of the decade, the FASB prepared, at the request of the SEC, two reports comparing US GAAP and IAS, which identified a number of so-called ‘variations’ between the two sets of requirements. According to several non-US commentators, the FASB reports demonstrated that the US was, despite its stated commitment to the work of the IASC, not at all inclined to adopt IAS as the basis for financial reporting practices for US or US-listed companies.

The main prudential reporting developments in the US during this period were the adoption of the Gramm-Leach-Bliley Act in 1999, which concluded the ongoing debate on federal versus state insurance supervision by confirming the previous legislation determining that the states were in the lead, and the development of a risk-based capital approach to solvency supervision. Furthermore, some changes were introduced in respect of statutory accounting principles, strengthening the clear distinction between the financial and the prudential reporting requirements for insurance companies.

In the UK, the financial reporting requirements were influenced by the incorporation of the European insurance accounts directive (although only to a limited extent) and the pronouncements of the new accounting standard setter ASB, which incorporated, consistent with the activities of its predecessor, the pronouncements of the IASC to the maximum extent. For insurers, the largest impact came from the Statements of Recommended Practice (SORPs) issued by the insurance industry itself.
These SORPs brought some improvements in the financial reporting practices of non-life insurers, but, more importantly, started an intense debate about the quality and necessary improvements in reporting practices of life insurance companies. This resulted not only in the invention of a new reporting methodology by the insurance industry, called ‘embedded value’, but also, near the end of the period, in a revised and expanded SORP covering general insurance business, life insurance business, and investment activities of insurance companies. The purpose of the embedded value method was to eliminate the prudential margins and to present the future cash flows to shareholders on a ‘realistic’ basis. It used realistic assumptions to determine the insurance liabilities. Since it was, however, not accepted for the purpose of preparing an insurer’s balance sheet, the information was disclosed in the notes and widely accepted and supported by investors. In my view, it signalled the end of the prevailing UK type 3 or type 4 single-track reporting approaches.

The main UK prudential reporting developments concerned the continuing alignment of laws and regulations to (amended) European supervisory insurance directives. However, on top of this, the UK government also introduced some changes on its own to modernise and update existing legislation, and, at the end of the period, announced fundamental changes in the structure of supervision of the financial services industry as a whole by the creation of a new supervisor the FSA.

7.8.4 The Dutch financial reporting developments
The Dutch financial reporting developments in the period started with the implementation, in 1993, of the European banking accounts directive, adopted in 1986. It resulted in mandatory formats for the balance sheet and the profit and loss account of banks and, legally, abolished the previous legislation under which the DNB, as the prudential banking supervisor, could (and did) issue mandatory accounting principles to be applied in their financial statements. DNB was, however, still allowed to make recommendations, and it did so by incorporating them in the Handbook detailing the accounting principles to be applied in the prudential returns. Since the Dutch banking industry applied a type 4 single-track reporting approach, under which there were no (or as little as possible) differences between the prudential returns and the financial statements, and the views of the banking supervisor could not be ignored, DNB, in practice, still determined the rules. As a result, in my view, the prudential reporting requirements continued to prevail over the financial reporting requirements. In this respect, the approach to financial reporting by the Dutch supervised banks was, at the time, similar to that applied by the Dutch supervised insurers. As a consequence of the legal developments, the Dutch banks abolished the use of the undisclosed provision for general (banking) risks in 1997.

The second important legal developments concerned the implementation, also in 1993, of the European insurance accounts directive, adopted in 1991, introducing mandatory models for the balance sheet and the profit and loss account of insurers. Based on the options in the directive, the implementation act included a large number of options, in particular in respect of the accounting treatment of investments. In my opinion, the existence of these options combined with those in the fourth and the seventh directive (giving a total of 132 at the level of the directives) made a comparison of the annual accounts of European insurers, by default, impossible. Furthermore, in my view, the directive had no direct impact on the prevailing Dutch single-track reporting approach because of the options, since the resulting flexibility enabled the member states to maintain or abolish this approach if they wanted to do so.
The issue of comparability would also apply to the financial statements of Dutch insurers, unless the guidelines of the RJ would limit this level of freedom. However, as is described hereafter, this was not the case.

Holding companies of insurance groups were allowed to apply the models and accounting policies of the act and could, therefore, maintain their type 12 single-track reporting approach.

Regarding the technical provisions, the Dutch legislation did not include specific accounting principles, but referred to the prudential reporting requirements described later in this summary. Since such a reference was not made in the insurance accounts directive, this is, in my view, a clear indication that the Dutch government, at least in respect of the insurance-technical items in the financial statements of insurance companies, wanted, at the time, to maintain the existing situation under which the prudential requirements played an important role in the determination of the accounting principles in the annual accounts (a single-track reporting approach). It was, however, not completely clear which type of approach was advocated. This uncertainly relates to the simultaneous implementation of two prudential directives, described hereafter. The level of freedom left to the insurers in preparing their annual accounts was one of the reasons to establish, at the end of the period, an advisory committee (the Traas committee) to investigate possible improvements in this area, following up the fall of the Dutch life insurers Vie d’Or in 1993.

In respect of the annual accounts of financial conglomerates, the incorporation of the banking accounts directive and the insurance accounts directive in the Dutch legislation resulted, after several debates in Parliament, in the requirement that the banking segments had to be reported in accordance with the banking accounts directive, and the insurance segments in accordance with the insurance accounts directive. Furthermore, the amount of equity for the combined banking operations and the combined insurance operations had to be disclosed, despite earlier resistance of, in particular, ING.

In the period, the activities of the RJ continued to be dominated by its attempts to incorporate the pronouncements of the IASC as much as possible. This was evidenced by a RJ statement in 1997, when it made clear that it would no longer take IAS into account in developing its own guidelines, but use IAS as the starting point. This confirmed, in my view, my own assessment presented in the previous chapter that the incorporation of the IASC was one of the most important events in respect of financial reporting requirements.

During the period, the RJ issued a conceptual framework completely based on that of the IASC (including the focus on investors) and final guidelines in respect of changes in accounting policies and fundamental errors, financial instruments, tax accounting, consolidation, business combinations (including goodwill), segment reporting, the statement of source and application of funds, and the statement of cash flows. At the end of the period, almost all IASC standards had been incorporated, generally with only minor differences. The RJ also issued a number of draft guidelines that were revisions to existing guidelines and only finalised in the next decade: these concerned, in particular, business combinations (including goodwill), provisions, and pension liabilities. Furthermore, the RJ issued a draft guideline on the financial statements of banks.
Finally, the RJ published at the end of 1998 a guideline on the financial statements of insurance companies. This occurred at the time that, as is described in the next chapter, the IASC had only recently started its own project on insurance contracts. In that sense, the adoption of the guideline was a deviation from the stated RJ policy that it would take the IASC developments as a starting point for its own pronouncements. The guideline concluded a debate started in the 1980s, and, effectively, converted the legal financial and prudential reporting requirements into RJ pronouncements and recommended a clear and straightforward single-track reporting approach, without, however, defining the type of approach. The guideline was applicable to holding companies of insurance groups as well. The RJ maintained all options included in the implementation act, but went, in one respect, one step further. This concerned the accounting treatment of realised gains and losses on investments in land and buildings and in shares. The RJ introduced the so-called structural indirect return method, which was neither included in the insurance accounts directive nor in the Dutch legislation.

As a result, this decision was heavily contested, in particular by Oosenbrug. As is described later in this summary, his opposition did not stop a number of Dutch insurers, with AEGON as one of the first adopters (in 1995), to continue applying the method, now officially sanctioned by the RJ, in their annual accounts. The issuance of the guideline also provided further input to a debate on the need to make a clear distinction between financial and prudential reporting practices, which had started by Joosten and Agasi at the end of the previous period. Again, it was in particular Oosenbrug who took a firm position, stating that it was obvious that such a distinction was necessary given the different objectives of reporting regimes and strongly rejecting the continuation of the existing type 4 single-track reporting approach. However, for supervised insurers it was, in my view, clear that they did not have an alternative: as is explained above, this linkage was dictated by the legislator. Regarding this issue, I support a type 8 single-track reporting approach: the financial reporting requirements are leading, and additional information is presented to meet the prudential requirements, including the available and required solvency margins and all related prudential filters.

Regarding the reporting practices by Dutch companies, empirical research showed that there were still a number of areas where the financial statements did not always seem to comply with the legal requirements or the pronouncements of the RJ, or where a significant level of diversity was observed. This concerned accounting policy changes, business combination and goodwill accounting, provisions, extraordinary gains and losses, and segment information.

Overall, this summary shows, in my view, that the financial reporting requirements were expanded again, both from a European, an international and a Dutch perspective. However, it should also be noted that empirical research showed that practice did not always seem to comply in full with these requirements. Furthermore, in respect of supervised financial institutions (i.e. banks and insurance companies) the prudential reporting requirements still played an important role, either directly through legislative links between the two reporting regimes, or indirectly because both segments of the financial services industry maintained their single-track reporting approach to maximise the alignment between the prudential returns and the financial statements.

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578 See section 8.4.4.7.
7.8.5 The Dutch prudential reporting developments

The description in this section shows that, in the period discussed in this chapter, the European supervisory system on both banks and insurance companies was completed. Although there were several similarities, in particular the concepts of ‘single license’ and ‘home country control’, there was, however, one important difference: supervision of banks was exercised on a consolidated level, and on insurers on a solo-plus basis. The latter meant that the supervision focused, in first instance, on the individual insurance company, supplemented by inspection and assessment of the relationship of this company with its parent company and other companies (non-banks and non-insurers) within the group.

The European directives were implemented in the Dutch legislation in 1992 for banks and in 1993 for insurers. For non-life insurers, the prudential requirements were aligned with the financial reporting requirements, with, for the first time to my knowledge, the latter prevailing (a type 8 single-track reporting approach). This was, however, not the case for life insurers. The third life insurance directive included specific regulations to determine the life insurance provisions, which were subsequently included in Dutch Administrative Decrees. Since the financial reporting requirements for life insurers, both those included in the civil code and those included in the RJ guidelines, referred – for the determination of the technical provisions – to these prudential requirements, the latter continued to prevail and determine the reporting practices of supervised life insurers. Therefore, despite the fact that the financial requirements determined the accounting treatment of all other assets and liabilities, I classify the reporting practices of Dutch life insurers still as a type 4 single-track reporting approach, although I admit it is a judgement call.

The creation of financial conglomerates in the beginning of the period triggered the conclusion of a cooperation protocol between the DNB and the Insurance Chamber, to document the ways in which the supervisors would work together.

But it was, in particular, the further development of Fortis, with its combination of banking and insurance activities as well as cross-border mergers, which triggered further developments, not just in the form of covenants between the four involved supervisors, but also the adoption of European directives to strengthen the cooperation between national and international supervisors of companies active within the financial sector.

7.8.6 Reporting developments in practice

In providing a summary of the actual reporting practices by the companies reviewed in this dissertation, the need to make a clear distinction between the holding companies of the three groups and their insurance subsidiaries, identified in the previous period, continued.

The insurance subsidiaries consistently applied the models prescribed by the prudential reporting requirements and designated the prudential returns as their financial statement (a single-track reporting approach). Solvency information was disclosed and statements of source and application of funds or of cash flows were not provided. As in the past, the accounting policies of the subsidiaries were, generally, aligned with those applied by the holding companies, and are, therefore, not discussed separately. The size of the financial statements was also directly impacted by the prudential reporting requirements, as is evidenced by the decrease from 1995 onwards, when the need to provide a large amount of details on the investments was abolished.
Regarding the holding companies, AEGON consistently used the mandatory formats for insurance companies to present its balance sheet and its profit and loss account (a type 10 single-track reporting approach). On the other hand, Fortis and ING, as two financial conglomerates, had to find solutions to present their consolidated financial statements in accordance with the financial reporting requirements, which were, in the beginning of the period, not tailored to their combination of banking and insurance activities. Fortis presented different formats over the period, grouping items initially by nature, then by segment, and subsequently again by nature. ING, on the other hand, consistently presented the items by nature without making a distinction between banking and insurance business. Additionally, both presented segmental balance sheets and profit and loss accounts. In summary, both Fortis and ING applied a type 12 approach. All companies provided, consistently, consolidated and unconsolidated information and, for most of the period, a statement of source and application of funds, subsequently replaced by a statement of cash flows prepared under the indirect method. As a result of these developments, all financial statements of the holding companies gradually increased in size.

All holding companies added, for one or more years, some lines to the mandatory models, in particular subtotals or separate lines for items in the balance sheet and/or in the profit and loss account, for instance for operating results, unrealised and/or realised gains and losses on certain types of investments, and special or extraordinary income and expenditure. The movement in the reserves concerned, in particular, goodwill and the impact of mergers, the impact of changes in accounting policies, and unrealised gains and losses on investments, complemented by realised gains and losses on investments transferred from the reserves to the profit and loss account. Incidentally, Fortis and ING charged amounts to the reserves to strengthen their technical provisions. Solvency information on consolidated level was only disclosed by ING, starting in 1999.

Regarding the investments, the measurement bases in the balance sheet were consistent over time and between the companies. Land and buildings were reported at appraisal value, shares at the stock exchange value or estimated sales value, and fixed-income investments at amortised cost less impairment losses. The companies also reported consistently all unrealised gains and loss on investment in the reserves. However, as was allowed under the financial reporting requirements, there continued to be a large diversity in the accounting for realised gains and losses, and the accounting policies were changed several times.

This applied in particular to Fortis, which, until 1992, reported all such amounts in the profit and loss account. Subsequently, it changed this policy for realised gains and losses on the sale of fixed-income investments which were replaced by similar instruments: in such cases, the realised amounts were spread over the remaining life of the sold investments. Such a spreading for these investments was also applied by ING until 1992, a practice that was subsequently applied for all sales of fixed-income investments. For land and buildings and for shares, ING reported realised gains and losses until 1996 in the reserves, but from 1997 onwards in the profit and loss account, to achieve “greater conformity with IAS” (without, however, indicating the standards involved). AEGON consistently spread the results on the sale of fixed-income investments for the whole period. For the results on sales of land and buildings and for shares, it introduced an important accounting policy change in 1995. Before that year, all realised amounts were reported in the profit and loss account. But from 1995 onwards, AEGON applied the so-called structural indirect return method for its life insurance business, which practice was expanded to all activities in 1997.
Under this structural indirect return method, AEGON initially reported all realised gains and losses in the reserves, and subsequently transferred amounts from the reserves to the profit and loss account to present, in the latter, a long-term investment return. All described methods complied with the pronouncements of the RJ, which shows, in my view, that compliance with such guidelines did not ensure comparability of the financial statements of Dutch insurers.

The technical provisions life insurance were consistently calculated under the net premium method, although both AEGON and Fortis started, in 1990, to capitalise and amortise acquisition costs; the definition of the costs, however, differed, with AEGON taking a more aggressive approach by including more costs in this capitalisation and amortisation than Fortis. Analysis in the accounting literature revealed that also the amortisation patterns differed. On the other hand, ING only introduced capitalisation and amortisation of deferred acquisition costs in 1995. As there were no specific legal requirements on the calculation methods of the technical provisions before the implementation of the European insurance accounts directive in the Dutch legislation, all methods applied before 1995 can, in my view, considered to be in conformity with the Dutch financial reporting requirements, which stated, as is noted in the previous chapter, that they had to be “acceptable within the industry”. Compliance with the Dutch financial and prudential reporting requirements was, in my opinion, also the case subsequently, as it was both allowed to capitalise and amortise acquisition costs, and to charge them to the profit and loss account when incurred. Regarding the discount rate to determine the life insurance provisions, no conclusions could be drawn, since the level of disclosure decreased considerably compared to the previous period. However, because of the direct link between the financial and the prudential reporting requirements in respect of these provisions, I consider it highly likely that also this important parameter to determine the life insurance provisions was mainly influenced by the prudential reporting requirements and based on prudent rates.

The disclosures of the methods to determine the non-life insurance provisions remained, as was the case in the past, rather vague. However, an analysis in the early 1990s showed that the provisions for claims outstanding were, for the industry as a whole, calculated in a (very) prudent basis, showing significant run-off results, in particular when comparing these amounts to the net results. As there were no specific financial or prudential reporting requirements in respect of these provisions, also here I can only conclude that the actual practices complied with the requirements.

In respect of the other topics reviewed in this dissertation, the following observations can be provided:

- For long-term employee benefits, the companies started, during part or the whole of the period, to use IAS or US GAAP to report their liabilities;
- Although provisions for deferred tax were reported, it was not always clear whether and at what rate the fiscal equalisation reserve was included;
- Segment information was consistently disclosed by all companies for the full period, although ING only stated to present full balance sheets per segments in 1993; and
- Concerning business combinations, all companies continued charging goodwill directly to the reserves.

Finally, it should be noted that both AEGON and ING presented reconciliations of their equity and net profit between Dutch GAAP and US GAAP after they were listed at the NYSE.