Association of British Insurers 51 Gresham Street, London EC2V 7HQ Tel: 020 7600 3333 Fax: 020 7696 8999

RESPONSE BY THE ASSOCIATION OF BRITISH INSURERS TO THE CONSULTATION PAPER OF THE THREE LEVEL 3 COMMITTEES ON THEIR MEDIUM TERM WORK PROGRAMME

The Association of British Insurers (ABI) welcomes the opportunity to submit its comments on the 3L3 Medium Term Work Programme of CESR, CEBS and CEIOPS (the CP).

We welcome the consultation on the Level 3 Committees' medium term work programme as it provides an opportunity for industry to feed in its views as to what the Committees' priorities should be.

Our response focuses on the six key areas which the CP identifies as priorities for the three-year term to end-2010. However, we believe that for all areas of the work programme, including those commented on below, it is important that the Level 3 Committees adopt a transparent, consistent and rigorous approach:

- As a first stage in each of the areas identified within the work programme, the perceived problem should be articulated and the size of the issue robustly identified.[1]

- There should be wide consultation to ensure any proposals will address the issues identified in the most cost-effective manner, and also to ensure that any unintended consequences are identified and mitigated.

B (i) Competing products (Key issue)

The CP identifies "competing products" as one of six key areas in which the Committees "are committed to delivering maximum consistency across sectors" in the period to end of 2010. We believe it is important that the Committees await the outcome of the Commission's Call for Evidence on Substitute Products. If there is no clear evidence that a real problem exists as a result of non-harmonised rules, it would be inappropriate for the Committees to conduct any work on competing products. Consistency of regulatory regimes should not be pursued for its own sake.

We also note that CESR previously undertook some work in this area through a questionnaire to national supervisors. However, the outcomes were never published. It would have been helpful to industry to understand the results of this exercise.

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[1] In this context, we refer you to the comments of the CEA on the 3L3 Impact Assessment Guidelines of 24 August 2007, which we fully support.

B (ii) Credit rating agencies (Key issue)

Our comments are restricted to the use of credit ratings in the markets, as used by our members' fund management arms. We make no comments on their use in prudential regulation.

Our members manage assets of around £1.3 trillion on account of their life and general insurance interests, as well as assets of third party clients. Credit ratings impact a significant proportion of these funds under management. We have therefore been active in the debate about the oversight regulation of credit rating agencies and have submitted our views in response to consultations from the Commission, CESR and IOSCO.

Ratings have become integral to the operation of global capital markets. However, our members believe that they are only one of the factors to be taken into account when undertaking a credit assessment or an investment.

Because of this, we welcome the competition between agencies and rating methodologies. Subject to the agencies implementing effective governance measures, such as the IOSCO code, we are so far not persuaded that there is a need for formal regulation. The events of 2007 and the various enquiries that they have engendered will lead us to review this position in 2008.

B (vii) Conglomerates (the work of the IWCFC) (Key issue)

We agree that harmonisation should be an objective of the work of the IWCFC. However, we consider that it should not necessarily be the main objective, as that might result in requirements that reflect the lowest common denominator and that don't recognize key sectoral differences that are justified.

Further, conglomerates obtain considerable benefits from their diversification across sectors. It is important that these benefits should be maintained or enhanced rather than reduced.

B (viii) Capital modelling CRD (Basel II) and Solvency II

We recognise that the existence of different regimes poses particular challenges to supervisors in the case of conglomerates. However, we would be concerned if a desire for harmonisation was to change the overall approach in a way that de-emphasises institutions' own risk modelling.

B (x) Valuation of financial instruments (Key issue)

The requirements for valuations of financial instruments, as reflected in institutions' financial statements, are of course a matter for the IASB and are not for supervisors. Further, the IASB's objectives for general purpose financial reporting are not the same as the supervisors' for prudential supervision.

In the light of recent turbulence in the financial markets, we appreciate that there is a need to re-consider the appropriateness of accounts-based values for supervisory purposes. Nevertheless, we note that this work will need to reflect significant sectoral differences, for example in liquidity requirements.

Yvonne Braun
Assistant Director, Retail Market Regulation

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