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CEIOPS' comments on turmoil and current equity developments

The current market turbulences have had a limited impact on European insurance companies and pension funds. The European system is a robust one and CEIOPS as well as its sister Committees for banking and securities is strongly committed to contribute to the important objective of financial stability.

However it is well known that neither of CEIOPS' financial sectors invests in a vacuum. As important investors, insurers and pension funds participate in general market developments with some possible effects both from the general turmoil in the financial sector and also from further indirect effects like illiquid securities and falling share prices.

Share prices have declined tremendously over the last days. A small life insurer in Japan has failed today, due to its investment strategies including significant alternative investments. There is no similar failure foreseen in Europe. However supervisors will continue to monitor the situation very carefully in their home markets and enhance cross-border cooperation and information sharing. Where applicable, supervisors should also use the flexibility in their supervisory system to avoid procyclical effects through supervisory actions. CEIOPS is conducting a survey on national approaches and best practices, and stands ready to coordinate closely supervisory actions to be taken in Europe.

European insurers and pension funds are major institutional investors in equities. That is why it is important to avoid overreactions by the industry in the current and fluid circumstances. In this context CEIOPS reminds supervisors and the industry of the scope of IAS 39. This requires market prices for equities, but also provides guidance on the use of management internal assumptions to measure fair value when relevant market evidence does not exist. "We should not change the principles, but we should be ready to revisit the concept of active markets, where markets obviously do not provide appropriate prices", Thomas Steffen, Chairman of CEIOPS said.

Notes:

On 5 November 2003, the European Commission adopted the decision to establish the Committee of European Insurance and Occupational Pensions Supervisors, which entered into force on 24 November 2003.

The Committee is composed of high level representatives from the insurance and occupational pension funds supervisory authorities from the EU and EEA Member States.

CEIOPS will fulfil the functions of the Level 3 Committee for the sector of insurance and occupational pensions in application of the Lamfalussy Process. This includes in particular:

- providing advice to the European Commission, in particular in its preparation of draft implementing measures in the fields of insurance, reinsurance and occupational pensions,*
- contributing to the consistent implementation of community legislation in the Member States,*
- improving co-operation among Supervisory Authorities, including the exchange of information on supervised institutions.*

The Committee is chaired by Mr Thomas Steffen, who is supported by a Vice Chair and four other members of the Managing Board. At its meeting of 4 February 2004 CEIOPS endorsed the decision taken by the ECOFIN Council on 20 January 2004 to locate the Committee's Secretariat in Frankfurt am Main.