



BERMUDA MONETARY AUTHORITY
CONSULTATION PAPER ON AUDITED GENERALLY ACCEPTED ACCOUNTING
PRINCIPLE (GAAP) FINANCIAL STATEMENTS

OCTOBER 19, 2007

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0. Introduction

This paper outlines the Bermuda Monetary Authority's ("the Authority") proposal to publicly publish audited GAAP financial statements of Class 4 (re)insurers as defined under the Insurance Act 1978 ("the Act").

The views of the insurance industry and of other interested persons on the proposals set out in this paper are invited. Comments should be sent to the Authority, addressed for the attention of Kevin Anderson (kanderson@bma.bm) or Dianne Burgess (dburgess@bma.bm), not later than November 12th, 2007.

Audited Generally Accepted Accounting Principle (GAAP) Financial Statements

1. The Authority is seeking to move closer to complying with the International Association of Insurance Supervisors Insurance Core Principle 'ICP' 26, entitled 'Information, disclosure & transparency towards the market' by proposing that (re)insurers file audited GAAP financial statements with the Authority to be publicly published. The Authority proposes that the audited GAAP financial statements be filed with the annual statutory financial return. The audited GAAP financial statements are to be audited by the (re)insurer's Approved Auditor appointed under Section 16(1) of the Act.
2. The Authority believes that the additional transparency may enhance both policyholder protection and be viewed favorably by other stakeholders. It will also more closely align the Authority with international regulatory disclosure standards. Many jurisdictions currently publish the financial statements of regulated institutions.
3. The Authority proposes that this requirement only be extended to the commercial (re)insurance market. However, the Authority proposes a phased approach beginning with the Class 4 (re)insurers commencing with the 2007 year end. This approach was chosen because Class 4 (re)insurers generally have a higher profile than other Classes, and are more likely to be able to immediately meet the demands of this proposal.
4. The Authority does not intend to require Class 3 commercial (re)insurers to file audited GAAP financial statements to be publicly published until the Authority has consulted with said (re)insurers.
5. Class 3 and Class 4 have the meaning as defined under Sections 4D and 4E, respectively, of the Act.

Permissible GAAPs

6. The Authority proposes to require the audited GAAP financial statements filed by the (re)insurers to be prepared in accordance with the following standards or principles:
 - a) International Financial Reporting Standards;
 - b) GAAP that apply in Bermuda, Canada, the United Kingdom or the United States;
 - c) Such other GAAP as the Authority may recognise.

Legal Entity and Group

7. The Authority proposes to require Class 4 (re)insurers to file audited GAAP financial statements at the legal entity level. Where a (re)insurer does not normally commission a GAAP audit at this level, and the (re)insurer believes that such an audit

would be unduly punitive, the (re)insurer may make application to the Authority for approval to file audited GAAP financial statements at the group level, and the Authority will consider whether to approve the request. Should the Authority waive the audited GAAP financial statements at the legal entity level for the (re)insurer, the Authority will require that the (re)insurer file unaudited GAAP financial statements with the Authority.

Competitive Disadvantage

8. Where a Class 4 (re)insurer is of the opinion that public disclosure of its audited GAAP financial statements will place the (re)insurer at a competitive disadvantage, the (re)insurer may make application to the Authority to have the GAAP proposal modified. In deciding whether to approve the request, in accordance with ICP 26.4, the Authority will give consideration to whether the cost to the (re)insurer, in the Authority's opinion, outweighs the benefit of the public disclosure. Should the Authority waive the public disclosure provision for the (re)insurer, the Authority will require that the (re)insurer file audited or unaudited GAAP financial statements with the Authority (as the Authority deems appropriate) and also demonstrate to the Authority's satisfaction that the (re)insurer discloses sufficient financial information to its policyholders.

Statutory Financial Statements and Statutory Financial Return

9. The Authority proposes that only the audited GAAP financial statements and related Notes to the GAAP financial statements will be publicly published. The statutory financial return, statutory financial statements and related Notes to the statutory financial statements will not be publicly disclosed. Section 51B and other disclosure provisions in the Act will still apply.

Auditor Liability

10. The Authority proposes to include a provision that disallows any legal action by a third party from being brought against the Approved Auditor in respect of the audited GAAP financial statements filed with the Authority for the purposes of being publicly published. The (re)insurer will have to disclose this matter with the published audited GAAP financial statements.