To: Maria Luís Albuquerque, Commissioner for Financial Services and the Savings and Investment Union

Valdis Dombrovskis, Commissioner for Economy & Productivity; Implementation & Simplification

Subject: Insurance CFO Forum remaining challenges to achieve EU goals for regulatory simplification

Brussels, 13-02-2026

Dear Commissioner Albuquerque,

Dear Commissioner Dombrovskis,

I write on behalf of the European CFO Forum, a group formed by the Chief Financial Officers of 23 major European insurance companies. We wish to thank you for our past constructive dialogue and for the Commission's continued openness to engage in pragmatic, workable solutions to reduce unnecessary regulatory burden and strengthen the competitiveness of EU companies.

We recognise the efforts undertaken by the European Commission since our exchange on 10 March 2025, following our letter on 2 December 2024 to advance regulatory simplification. Some positive outcomes include the recent amendments to the Solvency II Delegated Regulation, refining key methodologies to reduce volatility and alleviate additional burdens, which is a meaningful step towards a more effective prudential framework. We also note the delayed/deprioritised implementation of 115 delegated acts as a significant effort from the Commission's broader simplification drive. The 'sustainability omnibus' package, introduced early last year, equally marks a step in the right direction and demonstrates real potential as a vehicle for reducing regulatory burden. Evidence of this is the removal of the reasonable assurance requirements and the elimination of sector-specific standards.

However, while these adjustments are positive, they fall short of the Commission's own ambition for meaningful simplification. The stated objective of a 25% reduction in administrative burden remains unmet, with **significant concerns remaining regarding the limited tangible progress achieved to date in delivering the level of simplification Europe needs.** For example, from an insurance perspective, while the EU Taxonomy 4 July Delegated Act had the objective to simplify reporting, this objective has not materialised, and insurers will not see a material reduction in Taxonomy reporting efforts. Further details are set out in Section I of the annex.

The simplification of the Corporate Sustainability Reporting Directive (CSRD) unfortunately also falls short, where Level 1 measures will not translate into material simplification for insurance undertakings or other preparers. As things stand, the ongoing Level 2 work, particularly the revision of ESRS Set 1, is unlikely to make sustainability reports significantly less complex or deliver meaningful relief, and further amendments are needed to achieve true simplification, as outlined in our letter of 16 January 2026.

In light of this, **the CFO Forum calls for further, more decisive simplification** to ensure that the Commission delivers on their stated objective. **The CFO Forum stands ready to support policymakers in exploring additional avenues to reduce regulatory complexity.** To this end, we have updated the recommendations we formulated in November 2024 which you will find in Section II of the annex.

In this context, we **would equally support the launch of a broader Financial Services Omnibus initiative,** which could offer a coherent vehicle to address horizontal issues. We believe **such an initiative should explicitly include provisions relevant to the insurance industry**, including, for example, adjustments to the Insurance Recovery and Resolution Directive (IRRD), the International Accounting Standards (IAS) regulation and the EU Taxonomy, to ensure that sector-specific needs and proportionality considerations are adequately reflected.

Another area of potential burden reduction is **auditing**, where the latest review, which took effect in June 2014, resulted in a notable increase in the burden on preparers. This is particularly relevant for insurers, whose audits require highly specialised expertise to address complex accounting, actuarial and regulatory considerations. Given that many EU insurers operate across multiple jurisdictions, the cumulative effect of these requirements can be especially burdensome, adding to operational complexity and resource demands. We enclose in Section III of the annex a set of targeted, practical proposals for your consideration.

Looking ahead, we also welcome the introduction of the **Taxation omnibus package,** which we recognise as an important avenue to simplify and streamline tax regulation, thereby strengthening European competitiveness.

The CFO Forum remains firmly committed to contributing constructively towards creating efficient and effective regulation, while ensuring the international competitiveness of our sector. In this context, our updated simplification recommendations aim to better contribute to the Commission's policy objectives. We would appreciate the opportunity to meet with you and your services to further discuss these matters.

Yours sincerely,

Cristiano Borean
European CFO Forum Chairman

Annex: I. EU Taxonomy 4 July Delegated Act: Non-use of reliefs

On 4 July, the European Commission adopted a Delegated Act (DA) intended to simplify the application of the EU Taxonomy. The DA introduced several welcomed simplification measures, including a materiality threshold, the removal of specific templates for fossil gas and nuclear exposures, and a streamlined Annex X for the disclosure of the Underwriting KPI and Investment KPI.

These measures were generally welcomed by insurers, who acknowledged the Commission's efforts to reduce administrative burden. However, despite its simplification objective, **companies were largely unable to benefit from the relief measures due to the way the provisions were designed and expected to be implemented**. Insurers therefore emphasise that the decision not to apply these reliefs should not be interpreted as an indication that burden levels are acceptable. Rather, **insurers had very limited scope to make use of the options provided**. In addition, the DA was not adopted until January 2026, and the timing of its adoption created uncertainty that rendered the simplifications very challenging to implement within such a short timeframe. Ensuring adequate timing is essential to effectively support companies in adopting the new regulation. Two key examples are outlined below.

- **Opt-Out Option**
  The 4 July DA introduced the possibility for companies not to disclose detailed templates until 31 December 2027, provided that they include a statement in the management report clarifying that they do not claim their activities are associated with environmentally sustainable activities as defined in the EU Taxonomy.

  However, the Commission's 17 December FAQs (Part A, Question 5) further restricted this option by clarifying that the opt-out cannot be applied partially, and that several scenarios prohibit financial undertakings from exercising the opt-out option. For example, financial undertakings managing or offering financial products claiming positive Taxonomy alignment under Articles 8 or 9 SFDR cannot use the opt-out. **Given that many insurers have distributed sustainable products under these SFDR articles, this clarification effectively prevents them from applying the relief**, thereby largely eliminating the intended benefits of the DA.

- **Old vs New Annex**
  The revised templates introduced by the 4 July DA also create significant barriers to simplification. In particular, the treatment of the Underwriting KPI under Annex X poses major challenges, especially regarding the rationale for requiring a split between gas and nuclear activities when reporting Taxonomy alignment and eligibility.

  There is a fundamental distinction between how insurers assess alignment for investments versus underwriting. For investment activities, eligibility and alignment are assessed based on the financed counterparty or activity**. For underwriting activities, however, alignment must be assessed at product level.** This requires splitting risk coverage within insurance policies, identifying the portion related to natural catastrophe (NatCat) coverage, and determining whether it meets the Taxonomy's technical screening criteria (TSC), 'do no significant harm' (DNSH) criteria, and minimum safeguards (MS). Nuclear and gas activities are neither part of the TSC, nor the DNSH criteria and MS as defined by the EU Taxonomy.

  This requirement is not only extremely burdensome but also misaligned with insurance business models. Moreover, it was not part of the existing framework and was instead introduced through the 4 July DA, running counter to the stated simplification objective. In addition, **the revised templates increase administrative burden by necessitating the implementation of new IT** components, rather than streamlining existing processes.

While the CFO Forum acknowledges the Commission's efforts to simplify the EU Taxonomy**, the 4 July DA not only fails to provide meaningful relief but also increases administrative burden through newly introduced requirements.** Insurers believe that further reducing administrative complexity is an important step, **but achieving effective solutions requires earlier and more substantive stakeholder involvement**.

Crucially, any simplification initiative should avoid introducing new obligations that generate additional workload.

II. Updated Technical Simplification Recommendations (February 2026)

Sustainability reporting regulation

CFOF recommendations

1. CSRD / ESRS: Ensure no new sector-specific reporting requirements are introduced, including via EFRAG's work on sector guidance.
2. CSRD / ESRS: Pause or phase in electronic tagging to reflect cost and implementation burden, with the requirement taking effect only from the second year of mandatory ESRS reporting (e.g., FY2028 if first reporting is FY2027).
3. EUT: Remove the requirement to split premiums.
4. EUT: Clarify that nuclear and gas activities are not insurance activities and should therefore be excluded from the relevant disclosure tables.
5. EUT: Clearly position the EUT within CSRD/ESRS framework to ensure the application of key principles such as materiality.
6. EUT: Revise the Underwriting KPI definition to reflect the ratio of taxonomy-aligned premiums to taxonomy-eligible premiums.

IAS regulation

CFOF recommendation:

1. Use of IFRS for separate financial statements: Allow for an entity level option to use IFRS for local reporting purposes by amending IAS regulation to always have the option to report under IFRS (no more member state "opt in"). This would give companies the option to apply IFRS for local reporting purposes, if they wish to.
2. Extend the "annual cohort" carve-out under IFRS 17: the carve-out is critical to fairly reflect European insurance business models and avoid increasing reporting burden for insurers.

Supervisory and regulatory reporting regulation

CFOF recommendations:

1. Implement a continuous selective harmonisation process to further align the IFRS and Solvency II frameworks where relevant. This should ensure that IFRS and Solvency II measurement and disclosures will not further diverge in the future, creating more complexity and increasing the reporting burden for insurance companies and groups in the EU.
2. Implement a more flexible consolidation approach and allow (re-)insurance groups to bundle narrative reporting for entity subgroups or segments for which they see meaningful harmonisation and simplification potential (e.g. bundling reports for all life insurance entities in one country or bundling of the reports on group level with the reports of the ultimate parent company of the group).
3. Avoid any new or additional reporting requirements from the Insurance Capital Standards (ICS) as developed by the International Association of Insurance Supervisors (IAIS), recognising that Solvency II, Solvency UK and the Swiss Solvency Test (SST) are implementations of the ICS in Europe.
4. Minimise any new reporting requirements arising from the implementation of the IRRD. Given the limited systemic risk posed by the insurance sector, a proportionate approach must be taken.

Global Minimum Taxation

CFOF recommendations for improvements and further simplifications in the Simplified ETR Safe Harbour rules of the Side-by-Side Package and the GloBE Model Rules

1. The Side-by-Side Package includes rules for a Simplified ETR Safe Harbour concerning so-called "Same-country Investment Entities" (SCIE), providing the option to include them in the blending circle with the Constituent Entity-owners. However, this is contingent upon neither of the options under Art. 7.5 and Art. 7.6 having been exercised. Since these options have a duration of 5 years, if one of these options has already been exercised, the possibility of utilizing the SCIE option would be eliminated for that period.
    - Therefore, the rules for the SCIE option should be adjusted to allow its exercise even if options under Art. 7.5 and 7.6 have already been exercised.
    - Furthermore, the SCIE option should also be incorporated into the GloBE full calculation.
    - In cross-border cases, where group-affiliated shareholders and investment entities are located in different tax jurisdictions, the Simplified ETR Safe Harbour does not yet provide a simplification. For these cases, a transparent or at least semi-transparent treatment should be permitted.
2. Further simplifications for insurance groups and other multinational financial services companies are needed to be implemented in both the Simplified ETR Safe Harbour and the GloBE Model Rules with regard to capital detention through investment entities, thus reflecting their unique structural characteristics and regulatory oversight.
    - Permit insurers and reinsurers to opt in for the inclusion of the annual mark-to-market movements of their interests in in-scope investment funds in the owner's ETR calculation, regardless of the fund's jurisdiction, where the investment is related to insurance business. As a guardrail, the option could be made contingent on a minimum nominal tax rate applicable in the fund owner´s jurisdiction, or its scope could be limited to Regulated Financial Services MNEs, or any relevant combination of both guardrails.
    - Provide an alternate optional transparency treatment for in-scope collective investment vehicles, where such treatment is available under national law. A targeted version could focus on entities backing policyholder liabilities.
    - Extend the 4-year testing period under Article 7.6 of the GloBE Model Rules to accommodate jurisdictions (e.g., Germany and France) where taxation deferral periods are longer.
    - Allow carry forward of pre-GloBE fair value losses under Article 7.6.3 of the GloBE Model Rules, to avoid top-up tax from unrealised gains that merely reverse such losses.
    - Introduce an election for insurers to include all taxed dividends (portfolio and non-portfolio) in the GloBE base. This election should also accommodate national requirements, allowing for inclusion or, where required by law, exclusion of such dividends.
3. Reduce complexity in reporting, computation, and enabling use of existing accounting systems and processes, which may contain simplifications due to a process-oriented fast close process.
    - The use of existing reporting packages which may contain simplifications due to a process-oriented fast close process as a starting point for the GloBE calculations would significantly reduce compliance burden and costs.
    - Promote the use of the parent company's accounting rules for group-wide QDMTT-calculations across all countries to ease the administrative burden. Treat all deferred tax liabilities (DTLs) or at least DTL´s that pose low-risk of ETR manipulation as covered taxes, eliminating burdensome recapture and re-computation obligations. This should include, in particular, DTLs related to assets backing insurance obligations. This would ensure consistency with the treatment of DTL related to the corresponding reserves. Such

insurance reserves are exempt from the DTL recapture (Art. 4.4.5 (g) of the GloBE Model Rules) and should consequently be accepted as covered taxes under a permanent safe harbour without limitations.

- Entities, that are not consolidated due to their size or materiality, should not be included in the scope of the global minimum taxation. At the very least, there should not be a requirement to prepare IFRS financial statements but to use the existing local GAAP figures.
- The simplifications should be applicable to all GloBE years, meaning for the transition year (2024 in principle) and subsequent years.
- Minimise divergence between GloBE and financial accounting to streamline reporting.
- Revise Global Information Return requirements for usability and reduced administrative burden.
- Harmonise QDMTT templates and deadlines to reduce duplicative reporting.
- Introduce proportional penalty caps: Given the complexity and evolving nature of the Pillar Two rules, the penalties levied by member states risk being excessive and inconsistent. Insurance Europe proposes the introduction of a proportional, EU-wide penalty cap to promote fairness and predictability during implementation. Such a cap should reflect the reality of legal uncertainty and the significant interpretation burden placed on taxpayers.

4. Introduce a whitelist of jurisdictions with expected effective tax rates at or above the 15% threshold.

III. Reduction of regulatory burden regarding specific audit-related requirements with a special focus on multi-PIE groups

1. Introduction

The general need for simplification and the reduction of regulatory burden was acknowledged by the European Commission in the Draghi report in which it was stated that "the regulatory burden on European companies is high and continues to grow, but the EU lacks a common methodology to assess it"[1]. By establishing the Competitiveness Compass, the European Union has made concerted efforts to streamline and modernise its regulatory landscape, aiming to enhance competitiveness, reduce administrative burden and support sustainable growth. Central to this unprecedented simplification effort are the EU's overarching goals to achieve at least 25% reduction in administrative burdens and reduce compliance costs for businesses before the end of the mandate.[2] These ambitions are reflected in key legislative reform efforts, including the ongoing Omnibus packages, which seek to consolidate and simplify existing regulatory requirements and frameworks.

In September 2025, EU Commissioner Maria Luís Albuquerque announced plans to consult on potential reforms for EU audit supervision, aiming to address issues like fragmented enforcement, technological challenges such as AI, and the need for greater convergence among member states. The consultation, launched to support the European Savings and Investments Union (SIU), seeks to identify challenges and potential solutions for improving audit quality and strengthening Europe's capital markets, with a possible legislative proposal following in the second half of 2026.

The CFO Forum aims to actively contribute to this debate and strive for regulatory simplification regarding audit-related requirements. The cumulative impact of complex and overlapping EU regulations on auditor selection and appointment has grown increasingly bureaucratic and burdensome, especially for multi-PIE groups, where several entities within the same consolidated group are classified as public interest entities

[1] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[2] https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615

(PIEs)[3]. This situation is particularly acute for international insurance groups, since insurance subsidiaries operating in the EU are considered to be PIEs. As the PIEs are often spread across jurisdictions, multi-PIE groups face a wide variety of regulatory requirements, which increase complexity but do not necessarily fulfil the objective of increasing audit quality. The current rules governing audit tenders, mandatory rotation and duration of audit engagements, as well as audit fee monitoring requirements including the calculation and enforcement of fee caps are often rigid, e.g. not sufficiently tailored to the specific circumstances of large international groups. For multi-PIE groups, the current audit-related regulations can therefore lead to multiple overlapping procedures and duplicate documentation requirements. To reduce complexity and compliance costs, a more balanced and harmonised approach is needed, with policymakers accounting for the specific structure of multi-PIE groups.

This call for simplification does not undermine high audit quality, auditor's independence or investors' protection, but rather supports the reduction of administrative burdens. By considering the recommendations of the CFO Forum as part of the EU's broader initiative to consult on potential reforms for EU audit regulation, policymakers can help create a more efficient and consistent supervisory and enforcement environment. Furthermore, most of the following recommendations are not only beneficial for the insurance sector but for all respective multi-PIE groups across all industry sectors in Europe.

2. Audit tenders

Under the current EU regulatory framework, the appointment of statutory auditors or audit firms for PIEs is governed by Regulation (EU) No 537/2014, which supplements Directive 2006/43/EC. Article 16 of Regulation (EU) No 537/2014 lays out audit-tender rules requiring PIEs to conduct a public tender process when appointing statutory auditors or audit firms to ensure transparency, fairness and competition. The audit committee is responsible for monitoring the tender, evaluating the proposals and submitting a recommendation to the administrative or supervisory body of the respective PIE. For multi-PIE groups this regulatory setup creates significant operational challenges and administrative burden. Since each PIE within the group is subject to the same audit tender requirements independently of each other, multi-PIE groups are often compelled to conduct multiple overlapping tender procedures. These are often duplicative, require extensive documentation and demand significant coordination efforts across different jurisdictions.

From a cost-benefit perspective, the current regulatory setup results in disproportionate compliance costs in relation to the added value or improvements in audit quality. Organising separate tenders for each PIE subject to EU regulation consumes substantial internal resources, may involve external consulting or legal fees, and leads to administrative duplications and redundancies. These costs may by far outweigh the potential benefits of the audit tender process intended by the policymakers, especially if the group already has robust internal governance and audit oversight mechanisms in place. Considering that it is usually in the best interest of the group to choose an auditor that can cover the relevant PIEs (and also subsidiaries outside of the EU), there is an intrinsic motivation to consider the perspective of subsidiaries.

From a group perspective, having separate audit tenders for each PIE can furthermore lead to fragmentation which can negatively impact audit quality. When different audit firms are engaged for separate PIEs within the same group, the audit process becomes scattered, leading to inconsistencies in audit methodologies, systems and communication flows. This lack of coordination poses risks to the coherence and effectiveness of the group audit. In contrast, a unified audit approach where a single group audit firm is appointed to audit all PIEs within the group could enhance audit quality through:

- a consistent application of audit methodology across all PIEs of the group,
- a streamlined communication between the component auditors, group auditor and the group's audit committee,
- a better integration of findings across the consolidated group and
- a more efficient and risk-focused audit process.

For these reasons, in practice, companies often end up appointing one audit firm for at least all the significant entities within the group. This approach reflects the inherent interest of multi-PIE groups in high audit quality,

[3] As defined by article 2 of the Directive 2013/34/EU.

especially given their complexity and public accountability. Selecting one audit firm for all PIEs in the group ensures an in-depth and consistent audit approach as well as clear responsibilities. Furthermore, it makes processes more efficient, avoids redundancies and reduces costs.

Therefore, the CFO Forum recommends simplifying audit tender requirements and allowing a single audit tender for all PIEs within a group where the global ultimate parent is a PIE subject to EU audit regulation. The recommendations aim to reduce complexity and administrative burden, lower compliance costs and enhance audit quality by promoting an integrated, risk-based and coordinated audit strategy that reflects the operational reality of multi-PIE groups and avoids unnecessary overregulation and inefficiencies.

While the first recommendation is a clear simplification from a group perspective, the second recommendation tries to provide an optional feature that incorporates a more balanced approach between group and single entity level:

Recommendations:

- **Comprehensive group audit tender for all PIEs within the group** The EU regulatory framework should allow to perform one comprehensive group audit tender that encompasses all PIEs within the group. This would streamline the process, reduce unnecessary redundancies and duplications and enable a consistent and coherent audit approach across the group. Proper documentation and transparency must be ensured meaning that the overall selection process including evaluation criteria, rationale for selection and any potential conflicts of interest should be documented centrally and shared with the relevant governing bodies of each PIE.
- **Optional involvement of PIEs in the comprehensive group audit tender process via veto right** In addition to a comprehensive group audit tender process, a clearly defined veto right for all PIEs could be established should they choose to conduct their own independent tender process. This approach strikes a balance between group level efficiency and entity level autonomy. As with the first recommendation, proper documentation is required. The group auditor's selection process including evaluation criteria, rationale for selection and any potential conflicts of interest must be clearly documented and made available to all PIEs within the group and their relevant governing bodies.

3. Mandatory rotation and duration of audit engagements

The framework governing the mandatory rotation and maximum duration of audit engagements for PIEs within the EU is set out in article 17 of Regulation (EU) No 537/2014. According to article 17(1), a PIE shall appoint a statutory auditor or audit firm for an initial engagement of at least one year and a maximum period of 10 years. After this period, the PIE is required to rotate the audit firm. Moreover, article 17(4) gives member states the option to extend the current audit firm engagement by up to 10 additional years (or 14 years in case of a joint audit,) if a retendering procedure is conducted.

In 2022, Accountancy Europe evaluated the implementation of the optional extension in the EU identified 13 different mandatory audit firm rotation regimes applied across 30 European countries.[4] More than half of the European countries opted for allowing an extension while e.g. Spain, Italy, Austria did not implement this option. In Germany, the option was originally exercised but has been withdrawn in 2021 to further regulate statutory audits, particularly in the area of public-interest entities, and strengthen financial market integrity. In addition, a de facto external rotation after ten years has been introduced in Germany for banks, insurance undertakings, pension funds and other financial service companies *that are not* public-interest entities but are subject to supervision by the Federal Financial Supervisory Authority (BaFin) under the German Banking Act (KWG), the Insurance Supervision Act (VAG), or the Payment Services Supervision Act (ZAG). In Sweden, banks, insurance undertakings and pension funds are subject to stricter regulations as the Swedish legislator has not adopted the option for a retendering procedure to extend the audit engagement for these companies.

By not granting the optional extension a legislator generally intends to further strengthen the auditor's independence and improve audit quality. However, when properly monitored, longer audit engagements can

[4] https://www.accountancyeurope.eu/wp-content/uploads/2022/12/Audit-Rotation-2022_Accountancy_EU.pdf

actually enhance audit quality. Over time, auditors gain a deeper understanding of the group's business model, internal control systems and risk environment which is e.g. especially critical for complex, highly regulated insurance groups as well as for multi-PIE groups in general. While the familiarity risk is a legitimate concern, it is already mitigated by mandatory internal rotation of key audit partners, as required by article 17 of Regulation 537/2014, and continuous oversight by audit committees and regulators. Therefore, an extended engagement period does not inherently compromise auditor independence if proper safeguards are in place. Furthermore, given that article 17(4) of Regulation (EU) No 537/2014 already permits audit engagement extensions, it is clear that at least the maximum engagement period set out by the EU is generally deemed acceptable and not conflicting with auditor's independence or audit quality.

Moreover, the stricter regulation also imposes significant operational and cost burdens on these companies and particularly multi-PIE groups. If it is not possible to prolong the audit engagement after 10 years via retendering, there is a more frequent rotation of audit firms. This leads to a disruption of established audit processes, loss of institutional knowledge and increased onboarding costs associated with transitioning between auditors. From a cost-benefit perspective, extending the audit engagement can deliver significant efficiencies compared to a shortened audit engagement and frequent transitioning between auditors as this often requires considerable internal and external resources which may not be justified, particularly when audit quality is already high and the auditor remains independent and objective. For multi-PIE groups that usually operate in financial services and thus require expert industry knowledge in their auditor, the option to retender also may increase competition in a generally tight market, which may in turn strengthen quality.

Overall, the fact that not all member states fully utilise the flexibility of audit engagement extensions clearly indicates the need to simplify and streamline regulatory requirements to support a level playing field in Europe.[5]

To reduce uncertainty and regulatory fragmentation regulators should consider further harmonising and unifying the audit engagement duration (incl. a possible extension period) across all EU member states. This would also support the EU's broader goals of reducing regulatory burden, promoting proportionality and avoiding unnecessary disruptions to business, all while safeguarding the core principles of audit quality and independence. In practice, it would allow to maintain stable, efficient and high-performing audit relationships that are subject to appropriate governance and oversight. **Therefore, the CFO Forum recommends harmonising the requirements for audit firm rotation and the duration of the audit engagements across all EU countries to ensure a level playing field – not only for banks and insurance companies but for all industries.**

Recommendation

- **Unified requirements for audit engagements and extensions across all EU member states based on the current maximum extensions allowed.**
  To ensure a level playing field, the maximum duration of the audit engagement should be consistently set at 10 years for all PIEs as this is already applied in the majority of the EU member states and the optional extension of the original maximum duration should be granted to all industry sectors in case of retendering allowing for another maximum of 10 years.[6]

4. Audit fee requirements and fee cap on non-audit fees

The regulation of audit fees and the imposition of fee caps on non-audit services is a key element of the EU's efforts to safeguard the independence of statutory auditors or audit firms, particularly focusing on the audit of PIEs. Article 5 of Regulation (EU) No 537/2014 establishes a blacklist of specific prohibited non-audit services which the auditor must not provide to the audited PIE, its parent undertaking or its controlled undertakings within the European Union.[7] Except for the services blacklisted in article 5, and subject to any

[5] See also Accountancy Europe, p 4; https://www.accountancyeurope.eu/wp-content/uploads/2022/12/Audit-Rotation-2022_Accountancy_EU.pdf

[6] Similar recommendation by Accountancy Europe: https://www.accountancyeurope.eu/wp-content/uploads/2022/12/Audit-Rotation-2022_Accountancy_EU.pdf

[7] Examples of services covered include specific tax, consultancy and advisory services to the audited entity, services that involve playing any part in the management or decision-making of the audited entity, services linked to the financing, capital structure and allocation and investment strategy of the audited entity.

stricter member-state rules, statutory auditors and audit firms can generally provide non-audit services to their audited PIEs. However, as individual member states have implemented different approaches in their national law, the different legislative requirements create a challenging environment across EU member states for multi-PIE groups.

Regarding the permitted non-audit services, article 4 of Regulation (EU) No 537/2014 introduces a cap on fees to prevent excessive dependence of the auditor or the auditing firm on non-audit service revenue. The fee cap requirement establishes that if the statutory auditor or the audit firm provides permissible non-audit services to the audited PIE, its parent, or its controlled undertakings, for a period of three or more consecutive financial years, the total fees for such services shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited PIE and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings.[8]

In the context of multi-PIE groups, the fee cap calculation generally applies to all PIEs and shall be determined for each PIE separately, meaning the cap is enforced at the individual PIE level. However, the calculation of the fee cap does not only include the audited PIE itself but also, where applicable, its parent undertaking and its controlled undertakings, irrespective of whether these entities are PIEs and whether they are established inside or outside the European Union. If non-audit services are provided on group/parent level, the proportion relevant to each PIE needs to be reasonably allocated. The prerequisite for the fee cap is an uninterrupted period of three consecutive financial years in which audit services and non-audit services have been provided to the audited PIE by the same statutory auditor or audit firm. If this condition is met, the total fees for such non-audit services in the fourth financial year fall under the cap otherwise the fee cap will not be applicable.[9] Exemptions are non-audit services required by Union or national legislation which shall be excluded from the cap calculation following article 4(2). As individual member states may have implemented different exemptions into their national law, the heterogenous legal environment imposes challenges for multi-PIE groups.

Although often closely related to the statutory audit and, amongst others, required by regulators or investors, a wide range of services fall under the category of permitted non-audit services, including e.g. comfort letters for capital market transactions, voluntary audits, reviews or agreed-upon procedures[10], and are counted against the cap. However, the assessment is not always clear and intuitive. Assurance engagements related to interim financial statements or audits of financial statements voluntarily carried out in a controlled undertaking (outside the definition of a statutory audit) are to be classified as non-audit services as they do not meet the definition of a statutory audit, when not required under national law. However, if the audited information and thus the audit procedures performed are used as part of or as preliminary work for the statutory audit, the fees paid for these services could be categorised as statutory audit fees.

Another problem related to the fee cap concerns comfort letters. The issuance of a comfort letter is not a direct legal requirement, but it is de facto necessary for the execution of a prospectus-based capital market transaction in view of the responsibility of the issuer and the banks involved in the issue for the prospectus. When the fee cap has already been exhausted or the remaining available fee volume no longer covers the costs incurred in issuing the comfort letter, the statutory auditor will no longer be able to issue a comfort letter. Outsourcing this activity to an auditor other than the statutory auditor will result in considerable higher costs and time burdens for the issuing companies.

[8] The fee cap does not implement a fixed limit with regard to the amount of fees that a statutory auditor or an audit firm can receive from a given audited PIE. However, there is a percentage limit to prevent the statutory auditor or audit firm from becoming too dependent on a given audited PIE. When the total fees received - both for audit and non-audit services - by a statutory auditor or an audit firm from a single PIE in each of the last three consecutive financial years are more than 15% of the total fees received by that statutory auditor or audit firm or, where applicable, by the group auditor carrying out the statutory audit, that fact should be disclosed to the audit committee. The audit committee should then consider submitting the audit engagement to a quality control review. If the fees received continue to exceed 15%, the audit committee should also consider whether the audit engagement should be kept; if so, the audit engagement can remain in place, but for a period no longer than 2 years.

[9] The financial year to consider is the one of the audited PIE even if its parent undertaking or if its controlled undertakings have different financial year closing dates. If an entity qualifies as a PIE during the course of an audit engagement, the calculation of the cap should start from that financial year the entity qualifies as a PIE. If there are several PIEs in a group, the first financial year shall be determined individually for each of them.

[10] To obtain auditor's comfort with respect to contractual requirements, for instance on compliance with bank covenants.

A more general issue arises regarding the timing of the respective statutory audit and non-audit service fees for the fee cap calculation. The Committee of European Auditing Oversight Bodies (CEAOB) states that statutory audit fees to be considered for the calculation of the cap should be the ones corresponding to the audit of the financial statements paid on average during the three financial years of reference of the PIE.[11] However, this leaves room for interpretation, as it remains unclear whether payments received by the auditor or audit firm during the three-year period should be taken into consideration following a cash-flow or payment-based approach, or if fees that are economically attributable to the three-year period should be considered, whereby the payment date does not necessarily have to fall within the three-year period.

Currently, there is no uniform approach in the member states. French lawmakers and the French supervisory authority base their calculations e.g. on invoiced fees. In contrast, the German Auditor Oversight Body (APAS) follows a payment-based approach. In a similar way, the treatment of non-audit service fees is unclear. For assurance engagements or similar services, the respective service is generally not considered realised until the results have been communicated. In case of consulting engagements or similar service contracts it is also possible that parts of the overall performance may be carried out and might be considered realised. According to CEAOB, regarding non-audit services, reference should be made to the time of realisation, irrespective of when these fees are invoiced or paid. Nevertheless, there is no uniform approach among member states, making it difficult for the audit committee to monitor the respective fees.

Another major burden from a multi-PIE group perspective is the required tracking and managing of non-audit fees at the individual PIE level. Significant manual data collection and coordination between local and group level finance teams is necessary to enable continuous monitoring and forecasting of future fees to avoid breaching thresholds. Considerable time and effort to classify, document and justify services per entity, even when the services are routine, non-critical and group-driven, increases the regulatory burden. Furthermore, multi-PIE groups face an even more increased effort tracking the fees in case the legal entity structure within the group or a sub-group structure is re-organised as this directly leads to a fee cap re-calculation.

In general, all permitted non-audit services are mandated and beneficial for the multi-PIE group as a whole. Sometimes, small PIEs within a large international group have a small audit fee, while the fee on group level is much higher. If several PIEs within the group engage the same audit firm for non-audit services, it may become difficult to stay under the cap at single entity level, even if the overall group exposure is limited and reasonable. The EU Regulation assumes that risks to auditor's independence arise at the individual PIE level, but this ignores the economic and governance reality of multi-PIE group structures. Fees are often negotiated and monitored centrally at group level, not entity by entity. The audit committee at group level oversees both audit and non-audit services, providing independent governance. In general, total fees at group level provide a more accurate and holistic picture of the relationship between the auditor and the group. Thus, enforcing the cap at single entity level does not necessarily reflect the true dependency or auditor's independence risk and can lead to distorted outcomes.

While the EU requirements theoretically reduce the risk of conflicts of interest and maintain the independence of statutory auditors by limiting their financial reliance on non-audit services, the current application of fee cap for non-audit services and the tracking on a single entity level creates disproportionate burdens and inefficiencies for multi-PIE groups and adds little to audit quality or independence, especially when the group already has strong governance structures and internal policies in place. To reduce unnecessary regulatory burden but also maintaining oversight, the CFO Forum recommends the following:

Recommendations:

- **Fee cap monitored on group level instead of single entity level**
  A group-wide view of audit and non-audit fees should be permitted for fee cap calculation and monitoring purposes as this would be particularly beneficial for multi-PIE groups with centralised governance and strong audit committee oversight. This should also include documentation and justification of services at group level, supported by robust internal controls and transparency, rather than enforcing a fragmented, entity-by-entity compliance model. Such a wholistic approach would align better with economic reality, preserve audit quality and reduce complexity and cost, all while ensuring the auditor's independence remains well protected.

[11] CEAOB, p. 3; https://finance.ec.europa.eu/system/files/2018-10/180921-ceaob-monitoring-fee-cap-non-aduit-services_en.pdf.

- **Further harmonisation and more business-related distinction between audit and non-audit services**
  Specific services that currently fall under the category of non-audit services but are reasonably provided by the appointed group auditor, like the issuance of a comfort letter, should be considered audit services. This would also be more in line with the objective of avoiding excessive consulting services by the group auditor without compromising the objective of high-quality group audits. Furthermore, a uniform approach across all EU member states is needed to clarify when respective statutory audit fees and non-audit service fees should be included in the fee cap calculation and if a payment-based approach should be considered or the fact whether the fees are economically attributable to the respective underlying calculation period or not.

The European Insurance CFO Forum ('CFO Forum') is a high-level discussion group formed and attended by the Chief Financial Officers of 23 major European listed, and some non-listed, insurance companies. Its aim is to influence the development of financial reporting, value based reporting, and related regulatory developments for insurance enterprises on behalf of its members, who represent a significant part of the European insurance industry. The CFO Forum was created in 2002. More information on the CFO Forum is available at www.cfoforum.eu