7 Holistic approach to tax within the ICS

Q217

Q217 Section 7.2.1 What would be an appropriate level of granularity that would strike a balance between accuracy and operational feasibility/complexity?

Organisation	Jurisdiction	Role	Confidential	Answer
China Insurance Regulatory Commission	China	IAIS Member	No	The tax policies and tax rates significantly vary across countries, we generally suggest ICS reflect the actual tax practice and tax rate for each country, to be accurate as much as possible.
EIOPA	EIOPA	IAIS Member	No	EIOPA supports an approach which is principally "bottom up", but with certain simplifications to support operational feasibility/complexity. This approach would be: - As part of the normal accounting process, individuals prepare their financial statements, identify DT and test DTA for realisability - only recognising that which is realisable. - Solo financial statements are consolidated in the normal way to create a group balance sheet. - Any adjustments necessary to is group balance sheets to create an ICS-compliant balance sheet are identified and made. - The DT impact of those ICS adjustments are calculated, using a group-wide effective tax rate, and a net DT balance calculated - All DTL arising from these ICS adjustments is recognised on the ICS balance sheet but

				recognition of the DTA is restricted to the level of the DTL, so that no net DTA adjustment is ever recognised.
BaFin	Germany	IAIS Member	No	In the context of taxes, one could think that an appropriate level of granularity is that you can at least identify the figures at local level. This kind of information is no longer available in the group consolidated balance sheet. However, if the information is kept outside the balance sheet the top down approach might also work. But in general we support an approach which is principally "bottom up", but with certain simplifications to support operational feasibility/complexity. This approach would be: 1) As part of the normal accounting process, individuals prepare their financial statements, identify DT and test DTA for realisability - only recognising that which is realisable. 2) Solo financial statements are consolidated in the normal way to create a group balance sheet.
National Association of Insurance Commissioners	USA	IAIS Member	No	The level of granularity should be in line with the firms GAAP/IFRS reporting methodology. This will ensure a level of consistency amongst firms and provide a more auditable basis for the computation of ICS tax charge.
Ageas	Belgium	Other	No	Tax is an important loss absorbing element of the required capital. We believe the only correct way of determining the proper loss absorbency for deferred tax (LADT) is by calculating the impact of deferred tax per sub-risk and aggregating this using the correlation tables. This aggregated LADT should be tested against the future taxable profits of the insurance group. The analysis should be performed at taxable unit level as it is impossible to compensate taxes between different taxable units. We believe the following principles should be leading: Recognition and valuation of deferred taxes in the market value balance sheet Principle 1: Insurance and reinsurance groups should recognise and value deferred tax assets and liabilities in relation to all items that are recognised for IAIS purposes or in the tax balance sheet consistent with applicable tax regimes in order to ensure that all amounts which could give

				rise to future tax cash flows are captured. Recognition and valuation of deferred taxes in the stressed Market Value balance sheet Principle 2: Insurance groups should calculate the adjustment for the loss-absorbing capacity of deferred taxes by stressing the Market Value balance sheet and determining the consequences on the tax figures of the undertaking. Recoverability testing of notional deferred taxes Principle 3: Groups can, when assessing recoverability of notional deferred taxes, take into account future taxable profit stemming from existing business, new business and profits not already included in the Market Value balance sheet Documentation Principle 4: Groups should be able to provide appropriate documentation sustaining that it is probable that the group will have sufficient taxable profit against which the notional deferred tax asset can be utilised We also invite you to take note of the paper recently issued by the CRO Forum at http://www.thecroforum.org/dta-in-scr/
Canadian Institute of Actuaries	Canada	Other	No	In principle, tax attributes exist and should be valued on a "taxing-jurisdiction" basis. At a minimum, valuation of tax attributes, such as deferred taxes, should be done at a "country" level. However, in certain cases, it may be appropriate or necessary to assess valuation at a "tax authority" (i.e., subnational) level. Taxes are levies by governments at national and subnational levels and there are often limited opportunities to apply attributes across jurisdictions. Hence, recoverability and valuation generally can't be meaningfully evaluated on a global basis.

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	As tax policies and tax rates are quite different for different countries, we recommend that IAIS provide the unified standards while the local regulators develop an integrated taxation standard based on local tax policies.
Actuarial Association of Europe	European Union	Other	No	The allowance for tax should be based on the position at company level as a global or jurisdictional tax rate will not accurately reflect the impact on the capital position.
Institut des Actuaires	France	Other	No	An approach that uses an effective rate that is relatively stable (based on own historic experience).
Allianz	Germany	Other	No	The IAIS defined the ICS balance sheet and capital requirement to be derived from consolidated group data. The published group financial statements should be the starting point for each measurement under ICS because in practice GAAP Plus and MAV figures are developed based on IFRS figures. Deferred taxes are calculated for the first time under IAS12 and in the following gradually adjusted according to GAAP Plus and MAV valuation adjustments to assets and liabilities which lead to revised temporary differences. The level of granularity chosen for the evaluation of these revised temporary differences should be allowed to depend on the level of detail available by the IAIG regarding the GAAP Plus and MAV valuation adjustments. If information is available for each group member concerned, deferred taxes can be adjusted by using their individual local tax rates. If only one amount is available for the whole group, the adjustment should be allocated to the single members of the group by using a reasonable key, for instance the allocation of the group's assets or liabilities before revaluation to its members, thereby focussing on the major companies and their tax rates.
AIA Group	Hong Kong	Other	No	The adjustment to deferred tax may be performed on a country level. For each country, the GAAP basis deferred tax items are adjusted by the amounts of revaluation to MAV assets and liabilities multiplied by the country's tax rate.
International Actuarial Association	International	Other	No	The IAIS defined the ICS balance sheet and capital requirement to be derived from consolidated group data. However due to the differences in jurisdictional tax rates the deferred tax balance of

				the group depends on the differences of the tax balance sheet in each tax jurisdiction the group is active in and the corresponding notional ICS balance sheet relating to the same tax jurisdiction. For IAIG's that are typically active in many jurisdictions, a bottom-up approach would effectively imply the establishment of an ICS balance sheet for each legal entity, which creates a large workload. The IAIS could consider leaving the decision whether to apply a detailed or simplified bottom-up approach or a top-down approach to the IAIG. In cases where an overall net deferred tax asset results for the group as a whole, the tax calculation could be reviewed by the local supervisor to assess its accuracy and whether a haircut to the DTA should be applied in recognising it as eligible capital resources.
General Insurance Association of Japan	Japan	Other	No	To eliminate arbitrariness and ensure simplicity, we support the top-down approach and call for a simplified realisability assessment on a consolidated basis.
Great Eastern Holdings Ltd	Singapore	Other	No	IAIGs should be able to compute taxes for each fund at least for each fund as different funds might have different tax regimes.
Swiss Re	Switzerland	Other	No	For insurance groups with highly complex structures, operating in multiple tax jurisdictions, a highly granular approach must be used. Deferred tax assets and liabilities exist in multiple jurisdictions and cannot be modelled in a top-down consolidated approach. The most adequate approach would be to allow for the use of regulatory approved internal models.
Bupa	UK	Other	No	The ICS should recognise that there is a tax impact in the calculation of the ICS ratio, but not aim for a degree of accuracy which will be spurious. In other words, it should apply a highly simplified and approximate approach, with a low level of granularity.
Institute and Faculty of Actuaries	UK	Other	No	The allowance for tax should reflect the company specific tax position and rates. Global or country specific rates are unlikely to provide sufficiently representative impacts on capital position/requirements.

Prudential Financial, Inc.	United States of America	Other	No	One possible approach would be to measure the impact on deferred taxes for major jurisdictions only by applying the local statutory rate to the valuation adjustment related to the jurisdiction.
CNA	USA	Other	No	CNA supports a top-down methodology for the computation of deferred taxes for ICS purposes. While we acknowledge that this approach is not as precise as a bottom-up calculation, the incremental loss of precision is minimal compared to the significant effort and cost associated with computing deferred taxes on a legal entity basis.
MassMutual Financial Group	USA	Other	No	We suggest developing a threshold to determine if a given country is significant enough to warrant a distinct marginal tax rate. Establishing a threshold as a percentage of total income is one possible approach.

Q218

Q218	Section 7.2.1	Would an approach that utilises an effective tax rate at the country level be appropriate? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	The tax policies and tax rates significantly vary across countries, we generally suggest ICS reflect the actual tax practice and tax rate for each country, to be accurate as much as possible.
EIOPA	EIOPA	IAIS Member	No	No	See question 217. We suggest that the adjustments are calculated at a global level. To map the adjustments to individual countries and apply a tax rate at that level would be complex, and we question whether the accuracy would be substantially improved.
BaFin	Germany	IAIS Member	No	Yes	In general, we believe that an effective tax rate at the country level might be appropriate as the local tax regimes are in most cases different. An effective tax rate at that level might be more accurate than one single rate at the global level. For example in our jurisdiction the group is not the tax debtor but the individual undertaking. But there exist some contractual agreements at group level that allow the tax debtor (individual undertaking) to reduce its tax liabilities. Therefore, there is an effect of the individual tax only because the undertaking belongs to the group. However, these contractual agreements are linked only to the country level. So in our country, the insurance group estimates the tax effect of the group (as explained just for information) with an effective tax rate of the group at country level. As a conclusion, an effective tax rate might be appropriate at country level for a world wide group. This could be a proper balance between accuracy and operational feasibility.

IAIS

Ageas	Belgium	Other	No	No	Please refer to our answer to the previous question.
Canadian Institute of Actuaries	Canada	Other	No	Yes	For the reasons described in the response to Q217, an approach based on an ETR at a country level would be appropriate with recognition that additional granularity may be necessary and appropriate in very limited circumstances
CLHIA	Canada	Other	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	It is difficult in practice to adopt an effective tax rate. Given the significant differences between IAIG of different countries in terms of development stage and operating model, it's difficult to apply a consistent effective tax rate.
Actuarial Association of Europe	European Union	Other	No	No	
Institut des Actuaires	France	Other	No	Yes	This could be pragmatic if stable.
Allianz	Germany	Other	No	Yes	The use of effective tax rates for each country the group operates in seems a viable approach. The IAIG should then be free to determine the weights that best reflect the allocation of balance sheet differences to these jurisdictions and to derive an effective overall tax rate for the group.
AIA Group	Hong Kong	Other	No	Yes	This should be based on the statutory tax rate in the local jurisdiction.
International Actuarial Association	International	Other	No	No	The use of a pre-determined tax rate specific to where the group is domiciled does not take into account in which jurisdiction the business of the each specific IAIG originates and therefore would not reflect the true tax exposure of the IAIG. The use of effective tax rates for each country the group operates in seems a viable

					approach. The IAIG should then be free to determine the weights that best reflect the allocation of balance sheet differences to these jurisdictions and to derive an effective overall tax rate for the group.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・If I must say. In a country with a high effective rate, companies are not so easy to accumulate internal reserve funds. On the other hand, in such country, the effect of income taxes works as risk buffer. So, as a general rule, the extent of tax burden in each jurisdiction should be reflected fairly. But there may be a room to consider practical and simplified methods.
General Insurance Association of Japan	Japan	Other	No	Yes	The approach would be appropriate, though only for items for which specific adjustments at the country level can be determined.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・If we had to choose, our response is yes. We believe an approach that utilises an effective tax rate at the country level would be rather appropriate. ・In countries where tax rates are higher, the tax effect serves as a risk buffer while the accumulation of internal reserves is more difficult. Accordingly, the difference in tax burden between jurisdictions should be reflected equitably in the approach. However, given different legislations and practices in each jurisdiction, simplified approaches can be considered.
Great Eastern Holdings Ltd	Singapore	Other	No	No	Different jurisdications have different tax rates and different funds might have different tax rates. For some funds, there might be tax on tax or other complications, which make it difficult to derive the effective tax rate.
Swiss Re	Switzerland	Other	No	No	This might materially deviate from taxes to be effectively paid. A simplification could be the use of a calculated effective tax rate (calculated by the IAIG).
Institute and Faculty of Actuaries	UK	Other	No	No	

Prudential Financial, Inc.	United States of America	Other	No	No	See our response to question 219.
CNA	USA	Other	No	No	When computing deferred taxes at the consolidated group level, CNA believes a global effective statutory tax rate should be used.
MassMutual Financial Group	USA	Other	No	Yes	As noted in question 217, we suggest developing a threshold to determine if a given country is significant enough to warrant a distinct marginal tax rate. Establishing a threshold as a percentage of total income is one possible approach.

Q219

Q219 Section 7.2.1 Please provide any commentary on what would be considered an appropriate method to derive a global effective tax rate. Please support any proposed method with a short list of pros and cons.

Organisation	Jurisdiction	Role	Confidential	Answer
EIOPA	EIOPA	IAIS Member	No	A global effective tax rate should be calculated as the weighted average of effective tax rates in each tax jurisdiction. This would be updated in each period for both the relative weightings and the effective tax rates. Whilst the calculation of a weighted average effective tax can introduce some operational complexity, we believe that any other approach risks the inclusion of numbers in the ICS balance sheet that are materially inaccurate, perhaps significantly.
BaFin	Germany	IAIS Member	No	An appropriate method would be a method that is granular enough to consider the local characteristics of the local tax regimes but is also manageable in a practical sense. However, someone could also ask the question if such a global effective tax rate makes sense at all. The local tax regimes are so different that the meaningfulness of a global tax rate which is e. g. calculated as the weighted average of effective tax rates in each tax jurisdiction might tangent to zero. Such a global tax rate could at the most be used for information purposes but the information you get from that tax rate might not be enough for supervisory purposes.
National Association of Insurance Commissioners	USA	IAIS Member	No	The global effective tax rate should be derived and aggregated consistent with the GAAP/IFRS methodology used for financial reporting. This would be least burdensome as this would rely on company's internal processes that are audited for financial reporting purposes.

Ageas	Belgium	Other	No	--
Canadian Institute of Actuaries	Canada	Other	No	A global ETR is normally developed as a "weighted blend" of the ETR of the jurisdictions in which the enterprise operates. Weighting is based on the relative contribution of the members of the group to pre-tax earnings. As a result, the global ETR can be volatile to the extent the global mix of earnings fluctuates. Simplification can be achieved by "grouping" relatively less significant components of the global enterprise and grouping components with similar tax systems (i.e., similar statutory rates and tax systems for life insurers).
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Please refer to Q218 and Q219.
Institut des Actuaires	France	Other	No	A definition of effective should be proposed eg (Tax paid + incurred not paid less tax credits-rebates)/Gross Accounting Profit. Point to cross-check - Is the ICS a gross or net measure , or does the question just relate to deferred tax valuation ?
Allianz	Germany	Other	No	To derive a global effective tax rate, the adjustments from IFRS to GAAP Plus and GAAP Plus to MAV should be allocated to the entities concerned either directly or by a reasonable key (see Q217), depending on the level of detail at which information about the revaluation is available. The global effective tax rate is thus calculated as a weighted average of the country / entity specific tax rates.
Global Federation of Insurance Associations	Global	Other	No	The consideration of taxes is important, in fact critical, to many members. However, given early stages of discussion of how tax should be treated as part of the ICS, its inclusion in ICS 1.0 may be premature. GFIA welcomes the IAIS´ indication that the consideration of tax will be subject to further stakeholder discussions as part of the ICS development.

AIA Group	Hong Kong	Other	No	We favour tax rates that vary by jurisdiction.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	·Tax burden is caused in each jurisdiction, so the effective tax rate as group should be calculated as a general rule on a bottom-up basis which recognize effective tax rate in each jurisdiction. But there may be a room to consider practical and simplified methods. For example, it is assumed that utilization of reinsurance or the like leads aggregating risk and profit in countries with a low tax burden.
General Insurance Association of Japan	Japan	Other	No	In practice it will be difficult to accurately calculate the rates to be respectively applied to revaluation and capital requirements. Therefore, in cases where the tax rates can be presumed to approximate the tax rate of the entire group, we propose the use of a simplified approach which utilises the annotated data on effective tax rates required under many accounting standards, or tax rates applied to the parent company or major group entities.
The Life Insurance Association of Japan	Japan	Other	No	·Given that the tax burden is a jurisdictional matter, the effective tax rate should be calculated following a bottom-up approach taking into consideration the effective tax rate in each jurisdiction. However, given different legislations and practices in each jurisdiction, simplified approaches can be considered. There can be cases where insurers aggregate their risks and profits in countries where tax rates are lower through reinsurance arrangements.
Great Eastern Holdings Ltd	Singapore	Other	No	NA
Association of British Insurers	United Kingdom	Other	No	The consideration of taxes is important and, in fact, can be critical. However, given early stages of discussion of how tax should be treated as part of the ICS, its inclusion in ICS 1.0 may be premature. The ABI welcomes the IAIS´ indication that the consideration of tax will be subject to further

				stakeholder discussions as part of the ICS, and would be happy to work with the IAIS as it develops its thinking.
RAA	United States and many other jurisdicitons	Other	No	In practice, developing a global effective tax rate will be quite challenging for many IAIG's. For IAIG's that operate in many different jurisdictions, the necessary calculations will be onerous and time consuming due to the number of individual taxable entities, the variable measurement bases for taxable income and the many estimates involved in measuring insurance income. At this time we do not have a solution to this problem, but are willing to participate in the future development of an approach for recognizing income taxes in the ICS.
Prudential Financial, Inc.	United States of America	Other	No	We recommend using a global marginal tax rate approach. Global marginal tax rate is a blended rate of statutory rates in the U.S. and local country rates. Determining the global marginal tax rate would require some level of management judgement to take into consideration various jurisdictions where the IAIG operates. This provides a reasonable balance of sensitivity and complexity for purposes of the ICS.
CNA	USA	Other	No	When computing deferred taxes at the consolidated group level, CNA believes a global effective statutory tax rate should be used. This rate can easily be derived by taking the weighted average of the highest statutory tax rates for each jurisdiction the group does business.
MassMutual Financial Group	USA	Other	No	Utilize a weighted average effective tax rate by country, over a finite time period, such as 3-5 years. Using a weighting would reflect all applicable countries, but account for varying levels of significance relative to the total. Using a multi-year approach would also buffer against a significant one-time event in a given year greatly skewing the overall rate. It would be undesirable to have a volatile tax rate impacting overall results. A disadvantage of this approach would be a case where a country materially changes its tax policy, such a lowering the corporate rate from 35% to 15%, it would take multiple years for this change to resonate in the suggested methodology.

Q220

Q220 Section 7.2.1 If post valuation adjustment DTAs would be included as a component of capital, a method to determine realisability or a partial deduction would also likely be an element of the calculation. Do you have any suggestions for an appropriate method to determine realisability of DTAs given a top-down approach? Would you prefer a partial deduction method? Please provide a rationale for your answer.

Organisation	**Jurisdiction**	**Role**	**Confidential**	**Answer**	**Resolution of comments**
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	New DTAs that arise as a result of a revaluation after a shock should be deducted completely (i.e. they should not be included in available capital, and they should not be used to reduce required capital). Such DTAs are even less likely to be realizable than the DTAs existing before the shock because there is a very high likelihood that an insurer will not be in a taxpaying position in a stress environment. If any amount of new DTAs is included, it should be treated at best as a tier 2 equivalent in capital resources: new DTAs should not be used to reduce required capital, since this would entail netting an asset that is treated as tier 2 in the ICS against a capital requirement that must be satisfied with both tier 1 and tier 2 capital resources.	
China Insurance Regulatory Commission	China	IAIS Member	No	We recommend to follow the actual tax practice in each market, use a bottom up approach for realiability tests of the DTA when practical.	
EIOPA	EIOPA	IAIS Member	No	We suggest that the DTA recognised as a result of the ICS adjustments should be limited so that it is never greater than the DTL so created. This is not as accurate as allocating the adjustments to solo entities and performing realisation assessments. However we believe that the complexity of the bottom-up	

				approach is such that the disadvantages outweigh this. (See also answer to question 217 above.) We see no merit in a partial deduction method.	
BaFin	Germany	IAIS Member	No	The question of realisability is very complex as it is based on local tax regimes. Therefore, it is very complex to embed these rules in a consolidated calculation. A partial deduction or an adjustment are always more general instruments which do not capture the characteristics of the individual group. Therefore, it might be better to force firms to keep the information about realisability of the local parts of the group and use that information when considering the realisability at group level. But if the information is not granular enough it is better to include such an adjustment than not.	
National Association of Insurance Commissioners	USA	IAIS Member	No	A partial deduction method would be a preferred approach as it incorporates conservative prudential principles. For this purpose, both the components of the DTA and their expiration need to be understood in light of the design of the ICS. These are being analyzed through IAIS field tests and review of qualitative questionnaires from volunteers.	
Ageas	Belgium	Other	No	Please refer to our answer to question 217.	
Canadian Institute of Actuaries	Canada	Other	No	Any "top-down" approach to valuing DTAs, including a formula-based "partial deduction" or "cap" could result in arbitrary outcomes with limited basis in actual expected recoverability. DTAs must generally be realized and "monetized" on a jurisdictional (e.g., generally national) basis and require sufficient, appropriate future income in the particular jurisdiction. Any assessment of DTA realizability should recognize this characteristic of tax attributes. The accepted GAAP standard for recognition is "probable" (i.e., more likely than not) based on weighting of positive and negative evidence with the duration and reliability of future forecasts subject to judgement. It may be appropriate to prescribe a limit to an acceptable forecast period (e.g., three years) since reliance on future events is unlikely to support a high certainty of realization. On the other hand, in some circumstances any forecast of future	

				income may be insufficiently reliable to support recognition at all. One suggestion could be a valuation approach to DTAs that is consistent with GAAP principles and methodologies with a risk-based capital requirement in respect of recognized DTAs.	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	We propose adopting bottom up method to determine the realisability of DTAs to ensure the comparability between different countries.	
Institut des Actuaires	France	Other	No	Remain consistent with accounting principles IFRS 12 approach as in Solvency II, DTA can only be recognized if justified.	
Allianz	Germany	Other	No	The realisability of DTAs is already carefully examined on GAAP Plus level. These results should be the basis for any realisability judgement under MAV. If under MAV additional net DTAs arise compared to GAAP Plus, their value should be assessed under reasonable assumptions regarding the availability of future taxable profits. A partial deduction method is not preferred as it would not be in line with the assessment made under GAAP Plus.	
AIA Group	Hong Kong	Other	No	DTA's should be included in capital to the extent that they can be shown to be recoverable. We see no easy shortcut.	
International Actuarial Association	International	Other	No	Where there is a net deferred tax asset on the ICS balance sheet the IAIG should have the possibility to demonstrate its realisability through projections of future income, such as income from new business or existing business outside the contract boundaries. Where no realisability analysis is presented, limitations in recognising the net DTA in capital resources could be considered by the IAIS.	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	·Eligibility of deferred tax asset is deeply related with tax rule in each country, so it is not appropriate to set a single deductive rate or the like to apply to every companies.	

				For example in Japan, eligibility of deferred tax asset is very strict, so we believe we need no deduction from capital resource.	
General Insurance Association of Japan	Japan	Other	No	The deduction percentage for DTAs according to the accounting framework can be used. The deduction percentage should be set based on a valuation allowance that excludes the amounts for which the reversal period is unspecified (for example, depreciation of land).	
The Life Insurance Association of Japan	Japan	Other	No	·Since the qualification of DTAs is closely linked to tax schemes in each jurisdiction, it is not appropriate to apply the same rate for deduction from capital to different jurisdictions. For example, we do not think DTAs need to be deducted from capital resources in Japan as there are strict qualifying requirements for DTAs.	
Great Eastern Holdings Ltd	Singapore	Other	No	NA	
Swiss Re	Switzerland	Other	No	A full deduction should be allowed if the DTA is economically consistent (realisable).	
American Insurance Association	United States of America	Other	No	We welcome the discussion to address tax as a holistic consideration, as the aim of achieving a globally comparable standard could be undermined substantially when companies are driven to reassess choice of location solely because of the tax effects of the applicable regime. In particular, we would look to identify a near-term simplified approach that would restrict unsustainable or highly optimistic tax crediting as may apply in higher tax rate scenarios. Such a simplified approach may look to apply caps, although the appropriateness of these should be tested through the field test.	
Prudential Financial, Inc.	United States of America	Other	No	Prudential's recommendation is to apply GAAP rules to value DTAs for the purpose of capital resources and capital requirements. If the DTAs are not realizable under GAAP guidance (I.e. cumulative loss in recent years), a valuation allowance will be	

				recorded. An alternative method would be to allow recognition of net DTAs to the extent of carryback potential and recognize % of DTAs that will be carried forward.	
CNA	USA	Other	No	Since both the MAV and GAAP Plus valuation approaches start with a group's jurisdictional GAAP accounting valuation, CNA recommends using the realizability approach used in the group's jurisdictional GAAP regime since existing internal processes can be leveraged to minimize cost.	
MassMutual Financial Group	USA	Other	No	One approach would be to gather real data on unrealizable DTA across financial services firms, to establish a general assumption regarding the amount that will not be utilized. A multi-year approach would likely be prudent in establishing this factor. Due to the idiosyncratic nature of DTAs, such approach will not be perfectly accurate, but at a minimum will reflect the spirit that not all DTAs are realizable.	

Q221

Q221 Section 7.2.1 Should the IAIS pursue a more bottom up approach to determining deferred taxes post valuation adjustment? If “yes”, please provide any commentary to support this view.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	The bottom up approach is the most economically correct approach to evaluate the risk mitigating effect of DTA. However taking into account the complexity of its implementation, top-down approaches should not be discarded at this stage.
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	We recommend to follow the actual tax practice in each market, use a bottom up approach for realiability tests of the DTA when practical.
EIOPA	EIOPA	IAIS Member	No	No	
BaFin	Germany	IAIS Member	No	Yes	Both methods have pros and cons. The advantage of a bottom-up approach is that it uses information on the requirements of the local tax regimes and therefore on the realisability criteria of the local tax regimes. However, if it is possible to keep the relevant information then the top-down design might also be a good alternative.
National Association of Insurance Commissioners	USA	IAIS Member	No	No	Deferred taxes post valuation adjustments could be based on a more top down approach for simplicity purposes.

Canadian Institute of Actuaries	Canada	Other	No	Yes	As noted above, taxes are levied on a national or subnational basis and as such a “bottom-up” or modified “bottom up” approach would be most appropriate. Hence, the tax consequences of any post-valuation adjustment should be assessed and evaluated at that level, supported at a minimum by some disaggregation of the analysis if not a comprehensive “bottom-up” approach that balances the inherent subjectivity of any conclusion against the incremental cost of further refinements to the analysis
CLHIA	Canada	Other	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	Please refer to Q220.
Institut des Actuaires	France	Other	No	Yes	Depends on how much local balance sheets differ from fair market value principles.
Allianz	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	Yes	See our answer to the prior question
International Actuarial Association	International	Other	No	Yes	The IAIS should leave it to IAIG to use a bottom-up or top-down approach. The accuracy of the approach could be assessed by the group supervisor.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Yes if I must say. ・Tax burden is caused in each jurisdiction, so the effective tax rate as group should be calculated as a general rule on a bottom-up basis which recognize effective tax rate in each jurisdiction. But there may be a room to consider practical and simplified methods.

General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	Yes	・We believe the IAIS should rather pursue a more bottom up approach to determining deferred taxes post valuation adjustment. ・Given that the tax burden is a jurisdictional matter, the effective tax rate should be calculated following a bottom-up approach taking into consideration the effective tax rate in each jurisdiction. However, given different legislations and practices in each jurisdiction, simplified approaches can be considered.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	It is more intuitive. IAIGs would be familiar with the tax regimes for each of their entities/funds and would be able to incorporate them into the computations more effectively.
Swiss Re	Switzerland	Other	No	Yes	Deferred taxes should be adjusted to reflect the valuation parameters used for GAAP plus or MAV. DT could be based on GAAP and an economic valuation add-on to reflect valuation differences between MAV and GAAP Plus.
Prudential Financial, Inc.	United States of America	Other	No	No	A bottom up approach to measure the change in deferred taxes would produce the most accurate results but would be unduly costly and complex to implement. As stated above in our response to Q219, a global marginal tax rate approach provides a reasonable balance of sensitivity and complexity for purposes of the ICS.
CNA	USA	Other	No	No	
MassMutual Financial Group	USA	Other	No	No	

Q222

Q222 Section 7.2.1 Please provide any other options that should be considered by the IAIS with respect to reflecting the impact of revaluation under GAAP Plus and MAV on deferred taxes.

Organisation	Jurisdiction	Role	Confidential	Answer
Canadian Institute of Actuaries	Canada	Other	No	No comment
Institut des Actuaires	France	Other	No	It would be undesirable to have 2 completely parallel methodologies develop, GAAP Plus and MAV. A pragmatic approach should be considered.
International Actuarial Association	International	Other	No	N/A
Great Eastern Holdings Ltd	Singapore	Other	No	NA
Swiss Re	Switzerland	Other	No	See 221
Prudential Financial, Inc.	United States of America	Other	No	See our response to question 217.
MassMutual Financial Group	USA	Other	No	There needs to be more explicit guidance on DTLs relative to guidance on DTAs. It is not clear if potential adjustments and concerns regarding DTAs are symmetrically applied to DTLs. For example, if a top down calculation yields an incremental DTL, would there be an adjustment to reflect that it may not be 100% realizable?

Q223

Q223 Section 7.2.1 Should DTAs and DTLs be adjusted in both the MAV and GAAP Plus approaches to take into account the effect of discounting to ensure they are valued consistently with other material balance sheet items? Please explain.

Organisation	**Jurisdiction**	**Role**	**Confidential**	**Answer**	**Answer Comments**
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	No	Since DTAs arising from revaluation should not contribute to capital resources or reduce capital requirements in any meaningful way, the question of whether they should be discounted or not should not arise.
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No	No	At first glance discounting would be consistent with the treatment of other material balance sheet items. However, the crystallisation dates of transactions underlying deferred tax are so uncertain that the “accuracy” introduced would be spurious, whilst the calculation complexity would be greatly increased.
BaFin	Germany	IAIS Member	No	No	The effect is not taken into account neither under IFRS nor under Solvency II. That is because the crystallisation dates of transactions underlying deferred tax are so uncertain that the “accuracy” introduced would be spurious whilst the calculation complexity would be greatly increased.

National Association of Insurance Commissioners	USA	IAIS Member	No	No	Consistent with the GAAP/IFRS methodology, discounting should not be allowed.
Ageas	Belgium	Other	No	No	Already under IAS12 it is clearly stated that deferred taxes should not be discounted. The ground for this requirement is very clear. Deferred tax is calculated by comparing the difference in valuation of a balance sheet item under MAV and tax GAAP. These items have already been discounted. Therefore, they represent a value at reporting date. When calculating the deferred tax based on the difference between these valuation principles, the discounting has already been included in the basis for the calculation and should not be included twice.
Canadian Institute of Actuaries	Canada	Other	No	Yes	The Canadian GAAP model for tax accounting is based on the “accrual method”. As such, DTAs and DTLs are intended to represent estimates (or proxies) for future tax cash flows for an acceptably reliable forecast period. As such, the future tax cash flows represented by DTLs and DTAs under either valuation approach should be discounted to provide consistency with the remainder of the valuation framework.
CLHIA	Canada	Other	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We agree that DTAs and DTLs should be adjusted accordingly based on taxation policies in the MAV approach.
Institut des Actuaires	France	Other	No	No	Would require an extremely detailed analysis along with new assumptions about timing and realisation of the deferred profits and losses.
Allianz	Germany	Other	No	No	DTA and DTL should not be discounted as the projection of the timing of the reversal of the underlying differences is not possible, as these reversals are driven by many underlying asset management and liability management decisions. Additionally where under

					MAV/GAAP Plus liabilities are discounted the resulting DTA/DTL arising from reversals or timing differences are effectively discounted already.
AIA Group	Hong Kong	Other	No	No	We prefer simplicity. Under most GAAPs, deferred tax items are not discounted.
International Actuarial Association	International	Other	No	No	DTA and DTL should not be discounted as the projection of the timing of the reversal of the underlying differences is not possible, as these reversals are driven by many underlying asset management and liability management decisions. Additionally, when under MAV/GAAP+, liabilities are discounted and the resulting DTA/DTL arising from reversals or timing differences are effectively discounted already.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	・Consistent treatment may be achieved by discounting, but some difficulty may exist to figure out all cashflow.
General Insurance Association of Japan	Japan	Other	No	No	Taking into account the effect of discounting will necessarily increase the associated burden of IAIGs greatly, including an estimation of the reversal period of temporary differences. Therefore, it is realistic simply not to reflect the discounting effect. Assuming that most of balance sheet items are recorded on a discounted basis, timing differences will also be calculated on such a basis, and potential inaccuracies in the simplified approach will be small. At the same time, this will ensure consistency between DTAs / DTLs and other balance sheet items.
The Life Insurance Association of Japan	Japan	Other	No	No	・We believe that DTAs and DTLs rather should not be adjusted in both the MAV and GAAP Plus approaches. ・While the effect of discounting may ensure consistency between DTAs/DTLs and other balance sheet items, this may also make cash flows more difficult to capture in practice.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	This would be consistent with generally accepted accounting rules

Swiss Re	Switzerland	Other	No	Yes	
Prudential Financial, Inc.	United States of America	Other	No	No	Prudential does not recommend discounting DTAs / DTLs. Discounting of DTAs / DTLs is not required by any existing accounting guidance.
CNA	USA	Other	No	No	Consistent with how deferred taxes are treated by the FASB/IASB we do not believe deferred taxes should be discounted.
MassMutual Financial Group	USA	Other	No	No	

Q224

Q224 Section 7.2.1 If the answer to the above question is "yes", should a restriction be applied to the discounting of only one type of DTA or DTL, eg long-dated item? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	Again this is spurious detail. Suppose discounting was applied to (for example) the DT associated with changes in market value of long dated investments. To apply this, firms would have to make an estimate as to which assets would be held to maturity and which traded. This assessment will change over time as circumstances change over the long term.
BaFin	Germany	IAIS Member	No	No	Again this is spurious detail. Suppose discounting was applied to (for example) the DT associated with changes in market value of long dated investments. To apply this, firms would have to make an estimate as to which assets would be held to maturity and which traded. This assessment will change over time as circumstances change over the long term.
CLHIA	Canada	Other	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We suggest that DTA/DTL adjustments are determined with bottom up approach based on tax policies and no restriction should be applied.
Great Eastern Holdings Ltd	Singapore	Other	No	No	It would be more fair and objective for adjustments to apply in all circumstances.

Swiss Re	Switzerland	Other	No	No	

Q225

Q225 Section 7.2.1 Should an approximation of the discounting effect on a post-stress DTA be taken into account in any tax adjustment to the ICS capital requirement? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	The spurious nature of such precision in a post-stress world will be even greater than that in the unstressed balance sheet case.
BaFin	Germany	IAIS Member	No	No	The spurious nature of such precision in a post-stress world will even be greater than that in the unstressed balance sheet case.
Ageas	Belgium	Other	No	No	Please refer to our answer to question 217.
Canadian Institute of Actuaries	Canada	Other	No	Yes	Stress scenarios will be less favourable than the “base case” scenarios on which DTA recoverability analysis is most typically based. Hence, valuation under stress scenarios are likely to reflect both a lower likelihood of recoverability as well as possibly a longer time frame for recoverability (presuming the analysis is sufficiently reliable as to still support recognition at all). DTA valuation in stress scenarios should recognize both factors (e.g., it may no longer be appropriate to recognize DTAs is all stress scenarios) as well as the impact on additional discounting, possibly by approximation.
CLHIA	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	As it's difficult to split deferred tax adjustment into different years of realization, it's difficult to adopt the discounting method in practice.
Institut des Actuaires	France	Other	No	Yes	Loss absorbtion capacity of deferred taxes is an existing concept under S2. Would make the capital standard consistent to have this approach.
Allianz	Germany	Other	No	No	To the extent a net DTA remains in the stressed balance sheet (i.e. the balance sheet that results after the ICS stress has realized), it should be subject to similar recoverability testing as required for the ICS balance sheet recognition of a DTA. In particular DTAs should not be discounted.
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	No	To the extent a net DTA remains in the stressed balance sheet (i.e. the balance sheet that results after the ICS stress has realized), it should be subject to similar recoverability testing as required for the ICS balance sheet recognition of a DTA. In particular, DTAs should not be discounted (see Q223).
General Insurance Association of Japan	Japan	Other	No	No	For the consistency with accounting and simplicity, it is unnecessary to take the discounting effect into consideration.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	See response to Q224.
Swiss Re	Switzerland	Other	No	No	

Prudential Financial, Inc.	United States of America	Other	No	No	See our response to question 220.
CNA	USA	Other	No	No	Since deferred taxes would be the temporary difference between a group's ICS and tax valuations, any discount taken in the ICS would automatically follow into the deferred tax valuation as a difference.
MassMutual Financial Group	USA	Other	No	No	We presume this question is referencing the Notional Tax Adjustment encompassed in the ICS capital requirement. We do not support an overly robust process related to this tax calculation. The prior components of the broader calculation – defining a 99.5% scenario, capital required in such scenario, and diversification impact are 'best efforts' amounts, and given this, we do not support a higher level of precision related to the tax impact.

Q226

Q226 Section 7.2.2 Should MOCE be tax effected? If “yes”, what effective tax rate should be applied, and why? Please answer for both prudence and cost of capital MOCE.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	Yes	Use each country’s actual tax rate.
EIOPA	EIOPA	IAIS Member	No	Yes	In principle, we believe that MOCE should be tax effected. However, the actual treatment may depend on national tax rules. In Europe, the definition of deferred taxes is taken from the IFRS.
BaFin	Germany	IAIS Member	No	Yes	
Ageas	Belgium	Other	No	Yes	The MOCE should be tax effected using the legally applicable tax rate per taxable entity. We do not believe that the treatment should differentiate between the prudence MOCE or the cost of capital MOCE.
Canadian Institute of Actuaries	Canada	Other	No	No	
CLHIA	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	If MOCE (both prudence and cost of capital MOCE) is deducted from the capital resource as part of disabilities, its tax adjustment effect should be considered with the same method as the adjustment to DTA/DTL due to the difference between MAV and GAAP liabilities.
Actuarial Association of Europe	European Union	Other	No	Yes	This was agreed for the EU Solvency II regime and reflects the economic reality that unexpected losses will be available to reduce taxable profits.
Institut des Actuaires	France	Other	No	Yes	Under the current approach for MOCE which is to treat it as an obligation on the balance sheet , it would be consistent if it was tax affected.
Allianz	Germany	Other	No	Yes	If the ICS valuation approach will include a MOCE, the answer to this question is the same for each of the two possible interpretations regarding nature and objective of the MOCE (which seems not yet finally decided). On the one hand, it seems that a prudence MOCE is expected to be paid out to policyholders (with a certain probability) and as such reduces future taxes payable, therefore could be considered as a deferred tax asset, that realizes as tax savings when more than the best estimate is actually paid out. On the other hand a cost-of-capital MOCE leads to less future taxable income in case the MOCE is reducing the price in case of a sale of the portfolio (and in consequence the sales proceeds) and consequently has a deferred tax effect as well.
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	The answer to this question depends on the nature and objective of the MOCE (which seems not finally decided). For the part of a prudence MOCE that is expected to be paid out to policyholders (with a certain probability), this will reduce future taxes payable. Thus at least part of the P-MOCE could be considered as a deferred tax asset that is realized as tax savings when more than the best estimate is actually paid out. n the other hand, a cost-of-capital MOCE (under a going concern perspective) represents

					taxable future income and therefore does not reduce future taxable income and consequently has no deferred tax effect.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Tax effect treatment should be the same in the calculation of between capital resource and risk amount. In addition, if MOCE considered as a part of insurance liabilities is excluded from the capital, the tax effect should be recognized in every jurisdiction which may need adjustments of insurance liability between TAX and GAAP. This treatment should also be aligned with the tax effect recognition which is caused by conversion from GAAP in each country to MAV or GAAP+ . ・Insurance liability becomes "zero" after fulfilling insurance policy, so there is no difference between insurance liability in tax accounting and ICS basis liability (current estimate + MOCE). Because insurance policy will be fulfilled in most cases, we think the difference should be treated as temporary. So, should revise the assumption described in para 605, which estimates that difference is permanent. ・When you assume that policies are transferred to other insurers like Solvency II, you can expect that DTA is unrealized due to impossibility to inherit the deferred tax asset to the succeeding company. However, it is too conservative for you to expect non-tax effect considering the case where policies are not transferred. On the other hand, when insurers fulfill their contracts, it is natural to reflect full amount of the tax effect in terms of realizability of deferred tax assets.
General Insurance Association of Japan	Japan	Other	No	Yes	Assuming that the P-MOCE is not loss-absorbing, both the P-MOCE and CoC MOCE are part of insurance liabilities and should be recognised post-tax using a global effective tax rate in a similar way to the difference between MAV and GAAP insurance liabilities.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・We believe approaches to address tax effects should be consistent between the calculation of capital resources and the measurement of risk amounts. Additionally, if the MOCE is deducted from capital, tax effects should be recognised in jurisdictions where adjustments of

					insurance liabilities need to be made for tax accounting. The approach to address tax effects should be consistent with the recognition of tax effects in the calculation of the current estimate liabilities as well. ・Under the assumption of transferring insurance policies (for example, under the EU Solvency II), it may be impossible to transfer the DTAs. On the other hand, under the assumption of own fulfilment, it is natural for MOCE to have a tax effect, given the DTAs would be recoverable in the future. ・Additionally, both insurance liabilities for tax purpose and insurance liabilities for the ICS purpose (the sum of current estimate and a MOCE) would be null and there would be no difference between them after the fulfilment of the liabilities. In other words, assuming fulfilment of insurance liabilities, any tax difference is temporary and the assumption of "permanent book tax difference" should be reconsidered.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	Yes	The rate should reflect the expected effective tax rate in the jurisdiction for investment income
Aegon NV	The Netherlands	Other	No	Yes	Aegon believes that MOCE should be tax-effected due to the fact that losses accounted for in both a prudence and cost of capital MOCE have the effect of reducing payments to taxing authorities. The effective tax rate should be the rate at which the entity holding the liability is taxed.
Institute and Faculty of Actuaries	UK	Other	No	Yes	This was an issue that generated a significant amount of discussion within the industry when the EU Solvency II regime was being developed, and the outcome was that a DTA could be set up in respect of the risk margin. It may be worth revisiting the development process here for the ICS.
MetLife	United States	Other	No	Yes	Please see our response to Q. 66 above.

Prudential Financial, Inc.	United States of America	Other	No	Yes	Prudential considers a MOCE unnecessary in an appropriately designed and calibrated capital framework. Uncertainty with liability cash flows – beyond that already captured in the current estimate liability – should be captured in required capital. Further, we disagree with the IAIS' position that the MOCE is not double counting risk by reducing available capital for a MOCE and not adjusting required capital. Should the IAIS continue to include a MOCE in the ICS, if the pre-tax MOCE adjustment increases/decreased capital, it should be tax affected. Tax rate applied should be the statutory rate by jurisdiction, and the MOCE should be recognized as loss absorbing.
MassMutual Financial Group	USA	Other	No	Yes	We believe both Prudence MOCE and Cost of Capital MOCE should be tax effected. When the risks MOCE covers resonate, the impacts are tax effected, and therefore the MOCE itself should be tax effected. Alternatively, if the MOCE buffer was instead accomplished via a higher insurance liability on the balance sheet, such would be tax effected.

Q227

Q227 Section 7.2.2 Should deferred tax assumptions be incorporated into the cost of capital MOCE calculation? If "yes", please specify.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
Canadian Institute of Actuaries	Canada	Other	No	No	Similar to Q226, the MOCE itself should be determined on a pre-tax basis, just like the underlying MAV or GAAP+ liability. Q226 didn´t give a comment option. Here is the CIA comment: The pre-tax MOCE (whether P-MOCE or CoC-MOCE) is a component of the estimated cost of extinguishing the insurance liability. As such, it should be recognized on a pre-tax basis. However, any difference between the insurance contract liability currently recorded and the revised estimate of the liability computed under ICS (i.e., MAV or GAAP+ liability plus MOCE) should result in an adjustment to the DTA.
CLHIA	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	We recommend using a measurement method which is relatively simple and easy to explain where possible.
Institut des Actuaires	France	Other	No	No	
Allianz	Germany	Other	No	Yes	The tax effects should be included in the rate chosen for the costs of capital calculation (i.e. an after-tax cost of capital rate should be used).
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	The tax effects should be included in the rate chosen for the costs of capital calculation (i.e. a net cost of capital rate).
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Please refer to Q226.
General Insurance Association of Japan	Japan	Other	No	Yes	Similar to the treatment of insurance liabilities, the CoC-MOCE should be calculated on a pre-tax basis, and their corresponding DTAs should be recognized using a global effective tax rate.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・Please refer to the comment(s) on Question 226.
Great Eastern Holdings Ltd	Singapore	Other	No	No	NA

Swiss Re	Switzerland	Other	No	Yes	
MetLife	United States	Other	No	Yes	Please see our response to Q. 66 above.
Prudential Financial, Inc.	United States of America	Other	No	No	Prudential considers a MOCE unnecessary in an appropriately designed and calibrated capital framework. Uncertainty with liability cash flows – beyond that already captured in the current estimate liability – should be captured in required capital. Further, we disagree with the IAIS' position that the MOCE is not double counting risk by reducing available capital for a MOCE and not adjusting required capital. Should the IAIS continue to include a MOCE in the ICS, it is imperative that MOCE be calculated on a post-tax basis consistent with tax assumptions that support the base balance sheet/available capital and required capital calculations. Using pre-tax MOCE will create asymmetry of available capital and required capital, regardless of whether MOCE is treated as an adjustment to available capital or required capital. The easiest way to ensure tax alignment for MOCE with the rest of the ICS is to use post-tax required capital balances when determining MOCE. No further adjustments to P-MOCE would be required. CoC-MOCE would additionally need to use a post-tax discount rate and cost of capital assumption. The MOCE should be recognized as loss absorbing in the ICS.
MassMutual Financial Group	USA	Other	No	No	Since the determination of the cost of capital is arguably arbitrary to begin with, we support a more simplified approach that does not attempt to take in to account taxes. In a real world transfer of insurance liabilities to a third party, taxes may come in to play. However, the impact of such will likely be idiosyncratic, and vary on a firm by firm, and transaction by transaction, basis. This further supports our view that the cost of capital should not attempt to reflect deferred tax impacts.

Q228

Q228	Section 7.2.3	Please provide any specific recommendations for an appropriate realisability methodology.

Organisation	Jurisdiction	Role	Confidential	Answer
EIOPA	EIOPA	IAIS Member	No	Many aspects of the realisability assessment are tax regime specific. Matters which vary between tax regimes include (but are not limited to): - whether tax losses arising from one tax can be set against taxable gains of another tax - whether taxable losses can be used to reclaim tax already paid - restrictions on the period for which tax losses can be carried forward or the amount/percentage of profit that can be relieved by tax losses carried forward in any subsequent year. We do not believe that it would be appropriate for IAIS methodology to seek for global consistency in such matters since this consistency would not reflect prudential reality. The further into the future entities predict to support realisability, the more uncertain these predictions are likely to be. We believe that this would be a useful area for consistency, and recommends that IAIS consider setting a maximum period for forward projections.
National Association of Insurance Commissioners	USA	IAIS Member	No	The realisability methodology should be based on GAAP/IFRS principles. Limits should be set on the resulting DTA based on conservative prudential principles as explained in our response to Q220.
Ageas	Belgium	Other	No	Please refer to our answer to question 217.

Canadian Institute of Actuaries	Canada	Other	No	The accepted GAAP standard for recognition is "probable" (i.e., "more likely than not") based on weighting of positive and negative evidence with the duration and reliability of future forecasts subject to judgement. It may be appropriate to prescribe a limit to an acceptable forecast period (e.g., three years) since reliance on future events is unlikely to support a high certainty of realization. On the other hand, in some circumstances any forecast of future income may be insufficiently reliable to support recognition at all.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	We suggest performing the related testing with the bottom up method based on local tax policies according to the principles provided by IAIS.
Allianz	Germany	Other	No	Deferred tax assets should be realisable to the extent there are deferred tax liabilities on the balance sheet. Any excess (i.e. net) deferred tax asset should be realisable to the extent there is future taxable income arising from new business (which is not recognised in the MAV balance sheet) or existing business that is outside the contract boundary.
AIA Group	Hong Kong	Other	No	A standard realisability approach should be used for including DTA's in capital resources.
International Actuarial Association	International	Other	No	Deferred tax assets should be realisable to the extent there are deferred tax liabilities on the balance sheet. Any excess (i.e. net) deferred tax asset should be realisable to the extent there is future taxable income arising from new business (which is not recognised in the MAV balance sheet) or existing business that is outside the contract boundary.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	·We recommend taking the tax practice of each jurisdiction into account.
General Insurance Association of Japan	Japan	Other	No	As for DTAs on post valuation adjustment balance sheets, the amount based on the realisability assessment premised on normal circumstances should be included in capital

				resources with no limit. Realisability under stress should be taken into consideration only in the capital requirement calculation.
The Life Insurance Association of Japan	Japan	Other	No	·Since realisability of DTAs is closely linked to tax schemes in each jurisdiction, the IAIS should consider such a link in developing the methodology.
Great Eastern Holdings Ltd	Singapore	Other	No	NA
Swiss Re	Switzerland	Other	No	For insurance groups with highly complex structures, operating in multiple tax jurisdictions, a highly granular approach must be used to determine realisibility of DTAs. Deferred tax assets and liabilities exist in multiple jurisdictions and realisibility cannot be modelled in a top-down consolidated approach. The most adequate approach would be to allow for the use of regulatory approved internal models.
Prudential Financial, Inc.	United States of America	Other	No	See our response to question 220.
MassMutual Financial Group	USA	Other	No	We support the premise that if a DTA is deemed realizable in the context of GAAP reporting, it should be viewed that way as well. Creating a "double standard' of DTA realisability may not be productive.

Q229

Q229 Section 7.2.3 Please provide any input or feedback on the consideration to limit the DTA in capital resources either through a partial deduction and/or an overall limit.

Organisation	Jurisdiction	Role	Confidential	Answer
EIOPA	EIOPA	IAIS Member	No	In general terms, DTA can only be set against future taxable profits. As such they have value (and can potentially absorb losses) in a going concern scenario, but are valueless in a gone concern scenario. This does not fit easily with the ICS contention that tier 1 capital is going and gone concern, and tier 2 is gone concern alone. Given this peculiarity of the loss absorbency of DTA, we support some restriction being placed on the amount of capital resource which it can provide.
Ageas	Belgium	Other	No	We believe that a limitation is not required as long as the Deferred Tax Asset in the Market Value balance sheet has been subjected to a recoverability test as is required under IAS12.
Canadian Institute of Actuaries	Canada	Other	No	Any "top-down" approach to valuing DTAs, including a formula-based "partial deduction" or "cap" could result in arbitrary outcomes with limited basis in actual expected recoverability. DTAs must generally be realized and "monetized" on a jurisdictional (e.g., generally national) basis and require sufficient, appropriate future income in the particular jurisdiction. Any assessment of DTA realizability should recognize this characteristic of tax attributes.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Please refer to Q228. We have no other comment for now.

Allianz	Germany	Other	No	To the extent realisability of a net deferred tax asset can be demonstrated, no deduction or limitation is required.
AIA Group	Hong Kong	Other	No	See our answer to the prior questions.
International Actuarial Association	International	Other	No	To the extent realisability of a net deferred tax asset can be demonstrated no deduction or limitation is required.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	·Please refer to the answer for Q220.
General Insurance Association of Japan	Japan	Other	No	As for DTAs on post valuation adjustment balance sheets, the amount based on the realisability assessment premised on normal circumstances should be included in capital resources with no limit. Realisability under stress should be taken into consideration only in the capital requirement calculation, while avoiding double counting in capital resources.
The Life Insurance Association of Japan	Japan	Other	No	·Since the qualification of DTAs is closely linked to tax schemes in each jurisdiction, it is not appropriate to apply the same rate for deduction from capital to different jurisdictions or to set an overall limit. For example, we do not think DTAs need to be deducted from capital resources or an overall limit need to be set in Japan as there are strict qualifying requirements for DTAs.
Great Eastern Holdings Ltd	Singapore	Other	No	NA
Swiss Re	Switzerland	Other	No	A limit would not be appropriate in our view. See our response to question 228 above.
Prudential Financial, Inc.	United States of America	Other	No	See our response to question 220.

Q230

Q230 Section 7.2.4 Is there an appropriate methodology for evaluating the realisability of DTAs under stress which would lead to an appropriate treatment of deferred tax in the ICS capital requirement? If "yes", please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	Realisability is dependent on the relevant tax regime in which the stress would cause the tax loss. Given the variety of tax regimes, to assess realisability at a level less granular that the tax regime risks imprudence. EIOPA therefore supports a "bottom up" approach at tax regime level, to identifying realisability of DTAs under stress. This approach would: • calculate the group balance sheet • apply the shock to identify the shock – before any DTA adjustment • map the shock to all material tax regimes • identify the tax effects of the shock in all material regimes • undertake a realisability assessment in all material regimes • sum the realisably tax effects to identify the group realisable tax effect of the shock Nevertheless, in particular the realisability assessment after stress concerns a lot of uncertainty and subjective assumptions, The amount of uncertainty involved should be considered when allowing for a possibly substantial reduction of the capital requirements. The subjectivity of the realisability assessment should be related to all other aspects of the

					calculation of the capital requirements that do not involve subjective views (as they are prescribed).
National Association of Insurance Commissioners	USA	IAIS Member	No	No	It would be premature to comment on the methodology for realisability of DTAs under stress, before the methodology for realisability under pre-stress condition is concluded.
Ageas	Belgium	Other	No	Yes	Please refer to our answer to question 217.
Canadian Institute of Actuaries	Canada	Other	No	Yes	The framework and approach for assessing realizability and valuation of DTAs should initially be based on the principles described in the response to Q220. To the extent that DTAs have been recognized, a ICS risk charge is likely appropriate.
CLHIA	Canada	Other	No	Yes	
Insurance Europe	Europe	Other	No	Yes	IAIGs should have the possibility to apply their own methodology to assess and justify the recovery of DTAs under their own scenarios based on their own business plans.
Actuarial Association of Europe	European Union	Other	No	Yes	The calculated impact of DTA on capital could be adjusted in line with the stressed scenarios.
Allianz	Germany	Other	No	Yes	A net deferred tax asset resulting on the stressed balance sheet (i.e. the balance sheet that results after the stress used to determine the pre-tax capital requirement has materialized) should be subject to an analogous recoverability test as for the balance sheet net DTA recognition. However projections of future taxable income should take into account the post-stress economic environment (i.e. potentially de-risking measures, change in business mix etc.). Where a net deferred tax liability on the pre-stress balance sheet is sufficient to cover

					additional deferred tax assets resulting from the stress impact, no recoverability test should be required (i.e. the stressed balance sheet does not show a net deferred tax asset).
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	A net deferred tax asset resulting on the stressed balance sheet (i.e. the balance sheet that results after the stress used to determine the pre-tax capital requirement has materialized) should be subject to an analogous recoverability test as for the balance sheet net DTA recognition. However, projections of future taxable income should take into account the post-stress economic environment (i.e. potentially de-risking measures, change in business mix etc.). When a net deferred tax liability on the pre-stress balance sheet is sufficient to cover additional deferred tax assets resulting from the stress impact, no recoverability test should be required (i.e. the stressed balance sheet does not show a net deferred tax asset).
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・The taxable income in each jurisdiction may not decrease when the ICS ratio decreases. Therefore, deduction of DTA under stress scenario should be carefully considered.
General Insurance Association of Japan	Japan	Other	No	Yes	The realisability of post valuation adjustment DTAs should be evaluated using a top-down approach. The realisability of DTAs under stress can be expressed as a certain factor multiplied by the deduction percentage used under this approach.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・The deduction of DTAs should be considered carefully even under stress because capital inadequacy on an economic value basis in a jurisdiction would not necessarily lead to decrease in income for tax purposes.
Great Eastern Holdings Ltd	Singapore	Other	No	No	

Swiss Re	Switzerland	Other	No	Yes	See our response to question 228 above.
Institute and Faculty of Actuaries	UK	Other	No	Yes	The base DTA recoverability from the balance sheet could be adjusted to reflect the difference under stress in the capital resources for a "critical scenario" resulting in the capital requirement.
Prudential Financial, Inc.	United States of America	Other	No	Yes	See our response to question 220.
MassMutual Financial Group	USA	Other	No	No	

Q231

Q231 Section 7.2.4 Which of the following approach should the IAIS consider for including the impact of taxes in the calculation of the ICS capital requirement? Please explain, including providing a list of pros and cons.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Should any other approach be used? (Please provide details)	Each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a bottom-up approach
China Insurance Regulatory Commission	China	IAIS Member	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	To be consistent for all components on balance sheet, ICE capital requirement should be after tax.
EIOPA	EIOPA	IAIS Member	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	EIOPA wishes to reply to all the questions in this point. ☐ Should the tax impact be included in the individual ICS risk charge calculations pre-diversification? No, the realisability of deferred taxes requires a full balance sheet approach and the tax impact per individual risk charges cannot be determined as other risk charge calculations may influence the final deferred tax position. The total capital requirements after diversification before tax impacts can be translated into individual shocks that are proportionate to the contribution of the different risks to these capital requirements. Together these shocks form the scenario applied to the balance sheet to determine the tax position. The difference between the

					realisable deferred taxes on the balance sheets before and after these shocks make up the tax adjustment of the capital requirements. ☐ Should the IAIS ignore the tax impact on the ICS capital requirement, and instead reflect that impact in the calibration of the ICS capital requirement through the calibration of individual ICS risk charge calculations pre-diversification? (Please provide any suggestions as to how the individual ICS risk charges could be recalibrated to reflect this.) Worldwide tax rates are so variable that some "gross" risk weighting would need to be calculated and then recalibrated to reflect the effective tax rates faced by each group. Such method would not properly reflect the economics of the possible loss absorbing capacity of taxes. However, given the uncertainty, subjectivity and complexity involved in the calculation of the tax impact on the capital requirements, a single common reduction factor for the tax impact would be a lot simpler and does not require any subjectivity by insurers and supervisors. ☐ Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate? No. This approach is relatively simple, and capable of providing a figure which reflects the maximum tax benefit to the group which could arise from the stress. However, it does not provide any obvious means for testing realisability which will often only be capable of meaningful assessment at a firm-specific basis. Thus maximum tax amount calculated would need to be split

					and assigned to individual tax jurisdictions. For some jurisdictions a realisability assessment could be done at that level, but for other tax regimes that assessment would need to be made at a more granular level. Thus, complexity is not avoided by this approach. ☐ Should any other approach be used? (Please provide details) We have not identified any other approach.
National Association of Insurance Commissioners	USA	IAIS Member	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	We would prefer the simpler current ICS approach where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate. However, further data analysis would be required through IAIS field test exercise to assess materiality and suggest refinements. The other options are either more complex and require significant administrative burden or may be subject to errors and ignore the full economic impact of taxation.
Ageas	Belgium	Other	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	We believe the first option is most appropriate as this will best reflect the impact of tax on the ICS. However, there should be an overall test (after correlation and diversification) on the recoverability after stress. The second option will fail as the taxes are really different per legal jurisdiction. The same applies for insurance undertakings that have large unused taxable losses from the past. The third option is not granular enough for an item that is this as material as LADT.

Canadian Institute of Actuaries	Canada	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	This approach would be the simplest and the most practical, particularly since the other alternatives described above, while more complex, are unlikely to provide more meaningful and actionable results.
CLHIA	Canada	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	We recommend adopting a tax adjustment method that is easy to be implemented in practice under the premise of comparability.
Actuarial Association of Europe	European Union	Other	No	Should the IAIS ignore the tax impact on the ICS capital requirement, and instead reflect that impact in the calibration of the ICS capital requirement through the calibration of individual ICS risk charge calculations pre-diversification? (Please provide any suggestions as to how the individual ICS risk charges could be recalibrated to reflect this.)	The tax impact on the capital requirement should not be ignored in favour of the calibration of individual risk charges.

Allianz	Germany	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	Given the complexities of allocating particular stresses to jurisdictions, this appears the only viable option. See also Q 230.
AIA Group	Hong Kong	Other	No	Should any other approach be used? (Please provide details)	We suggest that DTA's not be recognized under stresses.
International Actuarial Association	International	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	Given the complexities of allocating particular stresses to jurisdictions, this appears the only viable option. See also Q 230.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Should any other approach be used? (Please provide details)	・In general, the tax treatment of the ICS should be consistent with tax practice of each jurisdiction. However we think a practical simplification may be allowed.
General Insurance Association of Japan	Japan	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	The tax impact should be calculated based on the ICS capital requirement post diversification.We prefer a top-down approach, to avoid overly detailed and complicated calculations of the tax impact in the ICS capital requirement.

The Life Insurance Association of Japan	Japan	Other	No	Should any other approach be used? (Please provide details)	・An approach to tax within the ICS should principally be consistent with tax schemes in each jurisdiction. However, given different legislations and practices in each jurisdiction, simplified approaches can be considered. The approach should be determined after the examination of Field Testing results.
Great Eastern Holdings Ltd	Singapore	Other	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	This could be a more accurate reflection of tax impact.
Swiss Re	Switzerland	Other	No	Should any other approach be used? (Please provide details)	A more bottom up approach is preferable. IAIGs should have the possibility to apply their own methodology to assess and justify the recovery of DTAs under their own scenarios based on their own business plans. The most adequate approach would be to allow for the use of regulatory approved internal models.
Institute and Faculty of Actuaries	UK	Other	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	The overall tax impact should be allowed for under stress. Whether this is allowed for at an aggregate level or in individual stresses is less of an issue.
Prudential Financial, Inc.	United States of America	Other	No	Should the tax impact be included in the individual ICS risk charge calculations pre-diversification?	The tax impact should be applied to risks before diversification in case the tax impact is different by risk (e.g. operational risk may have a lower tax rate as expenses from some risk events may not be tax deductible). Using a blended rate post diversification may be an acceptable simplification.

MassMutual Financial Group	USA	Other	No	Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate?	The current approach is straight forward, and relatively transparent. Presumably it aids comparability across firms, as it is easy to view results on a pre and post tax basis, and different tax rates across firms are clear.

Q232

Q232 Section 7.2.4 Should tax strategies/management actions and diversification impacts be reflected/allocated to tax jurisdictions if the deferred tax impact is calculated using a bottom-up approach? If "yes", how should this be reflected/allocated?

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	Yes	The equation in EIOPA guidelines on LACTP and LACDT (as corrected in the EIOPA Q&As) could provide a potential methodology.
Ageas	Belgium	Other	No	Yes	Please refer to our answer to question 217.
Canadian Institute of Actuaries	Canada	Other	No	Yes	The impact of tax strategies/management actions on the recoverability of DTAs is likely best assessed at the "valuation" stage rather than as a separate component of determining capital requirements. On the other hand, diversification impacts and particularly any that extend across taxing jurisdictions are likely best addressed through adjustments to ICS-required capital since a "bottom–up" valuation approach may not fully reflect the impact of cross-jurisdictional diversification
CLHIA	Canada	Other	No	Yes	

Ping An Insurance (Group) Company of China Ltd.	China	Other	No	Yes	We suggest local regulators decide the tax strategies to be included based on local tax policies.
Allianz	Germany	Other	No	No	
AIA Group	Hong Kong	Other	No	No	
General Insurance Association of Japan	Japan	Other	No	Yes	(Although we prefer a top-down approach), under a bottom-up approach, it is necessary to allocate the ICS capital requirement (before tax effects are reflected) to entities in the group determined as units of taxation in a specified manner, and, on the assumption that a loss equivalent to the post-diversification ICS capital requirement of each entity occurred, to assess the realisability regarding future tax profits of the loss (after reflecting tax strategies and management actions) to make an estimate of tax effects. However, if this approach were to be adopted, it would raise practical difficulties and be inconsistent with ICS Principle 8.
The Life Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	Yes	See our response to question 231 above
Prudential Financial, Inc.	United States of America	Other	No	Yes	When a bottom up approach is used to calculate deferred tax impacts, tax planning strategies / management actions that are feasible should be considered when determining the balance of deferred tax asset that is realizable. Tax planning strategies / management actions should be reflected in the deferred tax balance for the tax jurisdiction to which they

					apply. Using the allocation methodology should not be necessary when a bottom up approach is used.
MassMutual Financial Group	USA	Other	No	No	

Q233

Q233 Section 7.2.4 Should the IAIS address the substantiation of the realisability of DTAs? If "yes", please explain, taking into account issues related to a stress DTA (including defining future tax profits, reflecting the shock on future profits and avoiding double counting).

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	IAIS Member	No	Yes	Realizability of existing DTAs needs to be addressed as almost all DTAs reported in field testing were treated by volunteers as tier 2 capital resources. New DTAs expected to arise under stress should not be considered in the ICS calculation of required capital. However if they are, substantiation of their realizability will be an absolute necessity. All of the issues listed in the question will present big challenges in establishing realizability.
EIOPA	EIOPA	IAIS Member	No	Yes	Requirements will be needed to ensure that DTL on the balance sheet is not double counted, substantiating both DTA on the balance sheet and the realisability of tax effects of the ICS capital requirements calculation. In order to credibly project future taxable profits, firms would need to identify a range of factors. The reasonableness of any particular post-stress assumption is both group and stress-scenario dependant.
National Association of Insurance Commissioners	USA	IAIS Member	No	No	Substantiation of the realisability of the DTA under stress scenario should, in principle, be consistent with the company's audited GAAP/IFRS reporting.
Ageas	Belgium	Other	No	Yes	Please refer to our answer to question 217.

Canadian Institute of Actuaries	Canada	Other	No	Yes	Substantiation and documentation of the realizability of DTAs are the subject of internal control and auditing standards (particularly with respect to the reliability of evidence). Substantiation for ICS standards should be based on the GAAP approach with appropriate modification as necessary to apply ICS valuation principles to the "fact set" (positive and negative evidence) developed for GAAP and financial reporting purposes.
CLHIA	Canada	Other	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Allianz	Germany	Other	No	Yes	To the extent the stress leads to deferred tax assets that are covered by net deferred tax liabilities in the pre-stress balance sheet no realisability test should be required. For recognition of excess deferred tax assets the IAIS could consider to provide a possibility for IAIG to substantiate how after the stress and considering the economic situation after the stress the IAIG will generate future taxable income (e.g. from new business or existing business outside the contract boundaries).
AIA Group	Hong Kong	Other	No	No	
International Actuarial Association	International	Other	No	Yes	To the extent the stress leads to deferred tax assets that are covered by net deferred tax liabilities in the pre-stress balance sheet no realisability test should be required. For recognition of excess deferred tax assets the IAIS could consider providing the possibility for an IAIG to substantiate how after the stress (and considering the economic situation after the stress) the IAIG will generate future taxable income (e.g. from new business or existing business outside the contract boundaries).

General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	Yes	This is a crucial issue. See our response to question 231 above
Prudential Financial, Inc.	United States of America	Other	No	Yes	Prudential´s true response to this question is "no" however, we were required to select "yes" in order to include the following comments. Prudential believes projecting specific recovery scenarios would be difficult and time consuming. We recommend that GAAP guidance (i.e. assessing the need for a valuation allowance based on the weight of available evidence, positive and negative) be used to substantiate the realizability of the DTAs.
MassMutual Financial Group	USA	Other	No	No	

Q234

Q234 Section 7.2.4 Should groups be able to assume they can obtain value for the tax effects of the stress loss by selling tax losses to unregulated group companies which have taxable profits? If "yes", how would they assess whether these group companies would still be profitable in stress?

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	
EIOPA	EIOPA	IAIS Member	No	No	The uncertainty regarding whether group companies would still be profitable in a post-stress scenario is sufficiently large that to lower capital requirements on the basis of this would not be prudent.
BaFin	Germany	IAIS Member	No	Yes	They should be able to obtain a value for the tax effects but only in very restricted circumstances. In our local system, there are some legal requirements that have to be fulfilled and after that the mother undertaking can obtain value for the tax effects of the subsidiaries.
Ageas	Belgium	Other	No	Yes	This could be documented by showing the volatility/sensitivity of these unregulated companies to IAIS shocks.
Canadian Institute of Actuaries	Canada	Other	No		The CIA response to this question is maybe. The ability to realize the tax benefit of stress losses elsewhere with a group (including by unregulated members) will be fact specific, dependent on the tax rules of a particular jurisdiction and will need to be assessed on a case-

					by-case basis. If tax attribute transfers are possible, assessment of future profitability of potential transferees should be based on the same principles as are used to assess the future profitability of the regulated members and in particularly the reliability of forecasts to be relied on.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Allianz	Germany	Other	No	Yes	In case local tax regimes allow to surrender tax losses to other group companies, with the loss selling company getting a compensation in return, this benefit should be taken into account in the assessment of deferred tax assets from tax loss carryforwards. It depends on the nature of the shock (global market shock or only relevant for special industries) in relation to the nature of the unregulated group company's business if this company would still be profitable a specific stress scenario, for example real estate companies might react differently than health insurers in the specific stress scenarios.
AIA Group	Hong Kong	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	No	
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
Prudential Financial, Inc.	United States of America	Other	No	No	

MassMutual Financial Group	USA	Other	No	No	

Q235

Q235 Section 7.3 Are there any further comments on the approach to tax within the ICS that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
China Insurance Regulatory Commission	China	IAIS Member	No	No	
Ageas	Belgium	Other	No	No	
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	We support the further developments around the holistic consideration of taxation within the ICS, noting that the loss absorbing impacts of deferred taxation in particular can have a very material impact on the ICS capital requirements. We recognize that the aim of achieving a globally comparable standard could be undermined substantially through improper treatment of taxation. Any inconsistencies in treatment between jurisdictions could even drive companies to reassess choice of location solely as a result of the tax effects of this regime. We note that this area of the formula is at an early stage of development and one of the largest challenges is that the ICS is formulated as a top-down consolidated view of the IAIG, while taxation is applied locally at a tax jurisdictional level (e.g. potentially at level of branches of legal entities), which requires a bottom-up granular view of the insurer. For ICS Version 1.0 we would recommend a near term simplified top-down approach that would restrict unsustainable or highly optimistic tax crediting as may apply in higher tax rate

					scenarios. Such a simplified approach may look to apply caps, although the appropriateness of these should be tested through Field Testing.
CLHIA	Canada	Other	No	Yes	In lieu of providing descriptive answers to the specific questions in Section 7 on tax, we are providing a summarized outline of our recommendation under this general question The approach to tax must be conducted using a bottom up approach at the "taxing jurisdiction" level. At each of these levels, the country specific (or if applicable sub national) tax attributes such as the specific effective tax rates and recoverability standards must be taken into account. Amount recoverables under local GAAP standards for likelihood and timeframes for recoverability need be adjusted (discounted) to reflect amounts recoverable under stress scenarios (but explicitly including the positive effect of management actions) consistent with the rest of the valuation standards under the ICS framework. Consideration can be given to apply an appropriate risk charge to resulting amounts admissible under Capital Resources. The MOCE should be tax effected to align with the rest of the ICS framework. The consolidated result of rolling up results should reflect fact specific abilities to utilize tax losses elsewhere within the group.
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	
Actuarial Association of Europe	European Union	Other	No	Yes	Determining an appropriate approach to tax is difficult without the ICS being linked to a specific accounting standard such as IFRS.
Institut des Actuaires	France	Other	No	Yes	7. Holistic approach to tax within the ICS We would advocate something consistent with IAS 12. The granularity could be at country level if possible and aggregated.
AIA Group	Hong Kong	Other	No	No	

International Actuarial Association	International	Other	No	No	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Since realization of DTA strongly relates tax system in each country, applying standardized rule regarding DTA should not be suitable. Stresses under market adjusted value basis do not necessarily take the consequence of deduction of taxable profits.
General Insurance Association of Japan	Japan	Other	No	No	
The Life Insurance Association of Japan	Japan	Other	No	Yes	・Tax strategies/management actions and diversification impacts should not be reflected/allocated unless the DTAs are considered highly realisable. ・Since realisability of DTAs is closely linked to tax schemes in each jurisdiction, we do not think the application of a common rule to different jurisdictions would be appropriate. It needs to be noted stress on an economic value basis would not necessarily lead to decrease in profit, which relates closely to taxable income. It may be helpful to refer to the Volunteers´ past tax payment during financial crises.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Swiss Re	Switzerland	Other	No	No	
Aegon NV	The Netherlands	Other	No	Yes	Aegon acknowledges that tax is a complicated topic, but it needs to be included properly in the ICS framework. It is pivotal that the loss absorbing capacity of tax is recognized throughout the ICS framework. Some degree of simplification could be justified if the ICS is modestly calibrated, which would reduce the practical impacts of any distortions.

Institute and Faculty of Actuaries	UK	Other	No	Yes	Deferred tax is an accounting concept and the ICS does not align with a particular accounting regime (for example, Solvency II is linked to IFRS and so the tax standard which is used as a benchmark is IAS 12). Without the linkage to accounting standards there will likely be many variations in the approach adopted by groups in calculating deferred tax.
MetLife	United States	Other	No	Yes	The current IAIS method assumes the tax losses in a stress environment are fully recoverable and is being assessed. We propose that this assessment take into account the following: -- discounting for time or probability -- tax law in the relevant parent jurisdiction -- inconsistent treatment of tax adjustments (e.g. MOCE compared to required capital)
RAA	United States and many other jurisdicitons	Other	No	Yes	We welcome the holistic consideration of the recognition of income tax effects in the ICS. The loss absorbing impact of deferred taxes could have a very material impact on the ICS capital requirement. The challenge in this area derives from the top-down consolidated view of the IAIG, whereas taxation is applied by jurisdiction at the entity level. We believe that it may make sense to begin with a more simplified approach to recognition of tax effects that can be refined through future field testing.
MassMutual Financial Group	USA	Other	No	Yes	As a general statement, we support a simplified view of taxes in the context of the ICS calculation. This will aid comparability. Additionally, we remain skeptical that taxes can be modeled with such detailed accuracy in a 99.5 stress scenario.

End of Section 7