8 Tax Treatment

Q152 Section 8 Should all IAIGs apply the same utilisation criteria for starting GAAP DTAs (eg greater than 50% probability) regardless of whether their GAAP applies a more stringent utilisation assessment approach? If "yes" please explain how IAIGs, that apply a more stringent assessment, could re-perform a utilisation analysis using a common approach given the complexity of the assessment.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	No	Tax regimes are country-specific, as are the standards to calculate DTAs and DTLs. It would be incorrect to harmonize the utilization criteria. DTAs and DTLs should be calculated at the legal-entity level. The use of a group-effective tax rate for these values is an unnecessary interim step which may mask the analysis at a legal-entity level. The majority of the IAIG participants in the field testing will have their legal-entity financial statements subject to external audit. Each IAIG should be required to report the validation process used. The monitoring process proposed by the IAIS will capture this information, allowing modifications to these reporting requirements to be made during the testing period.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	Due to the signfiicant difference of tax practice in each market, we suggest that the IAIS provide only the basic principles, and allow the local supervisors to set utilisation criteria based on its own practice.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	In principle, the probability for utilisation should be set at the same level, for example at least greater than 50%. However, it appears difficult to judge whether the estimate is based on a 55% or 75% probability of utilisation. As the assumptions for Deferred Tax Assets have to be re-run in any case to assess the probable utilisation for the ICS (compared to DTA from the

				accounting figures), one could consider a higher threshold of probability for utilisation for prudential purposes.
Insurance Europe	Europe	No	No	Insurance Europe believes utilisation criterion should not be applied for "starting GAAP DTAs". Under the respective local accounting regimes, the recoverability is already assessed and adjusted if needed. Therefore, an additional haircut is not justified.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	More general, it is questionable whether DTA according jurisdictional GAAP are a sound starting point for a global standard. But, this of course depends on how the ICS deferred tax are calculated. We propose to calculate DT based on the difference between values on jurisdictional tax rules and ICS valuation principles. ICS DTA would be evaluated according to uniform ICS utilisation criteria. In that sense, the probability for utilisation should be set at the same level, for example at least greater than 50%. However, it appears difficult to judge whether the estimate is based on a 55% or 75% probability of utilisation. As the assumptions for Deferred Tax Assets have to be re-run in any case to assess the probable utilisation for the ICS (compared to DTA from the accounting figures), one could consider a higher threshold of probability for utilisation for prudential purposes.
Global Federation of Insurance Associations	Global	No	No	Common utilisation criteria would require additional work to be performed by some of the IAIGs. Using the utilisation criteria as applied in the consolidated financial statements has the benefit of being widely understood and consistently applied. Application at the GAAP level is subject to independent verification by way of an audit.
Dai-ichi Life Holdings, Inc.	Japan	No	No	It is partially Yes. In the present situation, there is no other choice but to start from the DTA which is recorded on the balance sheet of each country GAAP. On the other hand, there may be the other method if IAIG decides it has a merit after the ICS as a regulation has been determined. The other method is that IAIG calculates the DTA amount based on a probability criterion of more than 50% at the time of IAIG´s settlement work, and the audit corporation verifies and approves the validity of the calculation result.
General Insurance Association of Japan	Japan	No	Yes	Regardless of whether or not IAIGs' GAAP applies a more stringent utilisation assessment approach, in order to maintain comparability, the DTA recognition approach utilising IFRS should be allowed, instead of DTA utilisation on a jurisdictional GAAP basis.

				For example, the Accounting Standards Board of Japan ("ASBJ") Guidance No.26 places entities into 5 categories based on taxable income and limits recognition of deductible temporary difference according to each category. Regarding entities that are included in category 2, 3, and 4, the DTA could be reassessed by recognising deductible temporary difference pursuant to category 2 which is close to IFRS and US GAAP.
The Life Insurance Association of Japan	Japan	No	Yes	• The LIAJ partially supports this. At the present, it is considered that the starting point must be the DTA recorded on the balance sheet of each country´s GAAP. On the other hand, after the ICS implementation as regulation, it may be possible that IAIGs calculate their own DTA amount based on the probability standard of greater than 50% at reference date, and ,in order to validate the amount, IAIGs will be able to obtain audit certificate from the audit firm in addition to their financial statements, if IAIGs determine that there are some advantages by doing so.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	Yes	We see no reason why an IAIG subject to a more stringent local GAAP DTA recognition requirement should be penalised on their ICS balance sheet. Therefore it would be appropriate to allow IAIGs to do so. However as noted the assessment can be complex, and therefore this should be presented as an option as opposed to a requirement. An IAIG should be aware of the DTAs that it has not been able to recognise at a local GAAP level and should therefore it should be very simple to isolate those elements of deferred tax that require assessment. Any IAIG that would want to rely on a probable / more likely than not assessment would then need to develop a methodology for undertaking this, and the details of this methodology would be dependent on the specific situation as to what this might look like. Despite the potential complexity, once a methodology has been agreed it is demonstrably possible to undertake this assessment on a regular basis.
Association of British Insurers	United Kingdom	No	No	The use of common utilisation criteria would make the analysis unrealistic. Using the utilisation criteria as applied in the consolidated financial statements has the benefit of being widely

				understood and consistently applied. Application at the GAAP level is subject to independent verification by way of an audit.
AIG	United States	No	Yes	Optimally all IAIGs should apply a consistent methodology for the DTA utilisation assessment (i.e., greater than 50% probability). Professional judgment would be required to re-calibrate the DTA utilisation assessment to the extent the IAIGs GAAP standard differs from the consistent methodology prescribed. Alternatively perhaps a simplified approach could be used by the IAIG if properly identified.
National Association of Mutual Insurance Companies	United States	No	No	Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	We do not support the addition of the utilisation assessment to the ICS. The IAIS should first and foremost focus on getting foundational elements of the ICS correct (e.g., valuation, capital resources, capital requirement) before focusing on second order issues such as tax treatment in great detail.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q153 Section 8 Regarding Question 152, if an IAIG is able to re-perform their GAAP DTA utilisation assessment for the ICS, there is a concern that the estimate would be very difficult to rely on or validate if it was not subject to external audit. Please provide any views on how this calculation could be sufficiently transparent and verifiable by supervisors.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	As the objective and valuation for the purposes of ICS may be significantly different than the accounting figures, one must expect that the valuation of DTA need to be re-run in any case and the probability of utilisation has to be re-considered under the ICS' objective. It seems appropriate to perform an external review of the amended valuations and to disclose calculations to reconcile the DTA from accounting to prudential purposes.	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	As the objective and valuation for the purposes of ICS may be significantly different than the accounting figures, one must expect that the valuation of DTA need to be re-run in any case and the probability of utilisation has to be re-considered under the ICS' objective. It seems appropriate to perform an external review of the amended valuations and to disclose calculations to reconcile the DTA from accounting to prudential purposes. For such an external review the same ruls should apply as to the ICS accounting in general.	
Dai-ichi Life Holdings, Inc.	Japan	No	There may be the other method if IAIG decides it has a merit after the ICS as a regulation has been determined. The other method is that IAIG calculates the DTA amount based on a probability criterion of more than 50% at the time of IAIG´s settlement work, and the audit corporation verifies and approves the validity of the calculation result.	
General Insurance Association of Japan	Japan	No	The method described in our comment on Q152 is based on the Accounting Standards Board of Japan ("ASBJ") Guidance No.26 which the JGAAP applies. Therefore, the method is transparent and verifiable.	
The Life Insurance Association of Japan	Japan	No	- After the ICS implementation as regulation, it may be possible that IAIGs calculate their own DTA amount based on the probability standard of greater than 50% at reference date,	

			and ,in order to validate the amount, IAIGs will be able to obtain audit certificate from the audit firm in addition to their financial statements, if IAIGs determine that there are some advantages by doing so.	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	For GAAP DTA, it should be recorded as audited.	
Legal & General	UK	No	Supervisors could require IAIGs to obtain an independent audit opinion of the restated GAAP DTA to support its use.	
AIG	United States	No	As mentioned in Q152, professional judgment is subjective in nature. Professional judgment is required in any qualitative analysis and facts/circumstances can be interpreted differently by competent professionals. Data supporting the conclusions reached by the IAIG for the DTA utilisation assessment should be maintained and available to the supervisors to review if the supervisor deems it appropriate.	
Prudential Financial, Inc.	United States of America	No	Please see our response to question 152.	
Property Casualty Insurers Association of America (PCI)	USA	No	We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.	

Q154 Section 8 The utilisation assessment of the DTA resulting from the ICS adjustment and the ICS tax effect on the capital requirement is based on a top-down approach. Is this a reasonable way for determining the ICS tax treatment? If “no”, please provide, in sufficient detail, any alternate approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	No	DTA should be reported at a legal-entity level without a cap on utilization.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	In order to gain more insights in the financial situation of a group, principally the approach should be bottom-up, considering intra-group transactions and applying the relevant tax rates. Simplifications, like the top-down approach, should be applicable if the results are reasonably in line with those of a bottom-up approach.
Insurance Europe	Europe	No	No	The tax-capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. Insurance Europe believes the tax rate used should be based on the local fiscal regime. Because using the group effective tax rate will not enhance comparability. Only if tax arrangements such as fiscal unity can be applied across jurisdictions, a single rate could be applied. In fact, in most cases the tax impact is already calculated, only the IGT elimination would have an impact. In addition, Insurance Europe believes that the comparability argument is not justified. Because there will also be differences in other underlying legislation - not necessarily only in the area of tax treatment (eg social security, liability arrangements fiscal treatment of life insurance). In addition, Insurance Europe notes that undertakings should also have the option to perform a bottom up tax calculation. .
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	In order to gain more insights in the financial situation of a group, principally the approach should be bottom-up, considering intra-group transactions and applying the relevant tax rates. Simplifications, like the top-down approach, should be applicable if the results are

				reasonably in line with those of a bottom-up approach. One has to pay specific attention also to the appropriateness of the approach in stressed situations.
Global Federation of Insurance Associations	Global	No	No	Tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. Firms should be permitted the option of a bottom up tax calculation, which will be more reflective of actual recoverability.
Dai-ichi Life Holdings, Inc.	Japan	No	No	Tax treatment should be a method based on the actual management situation of IAIG and the characteristics of the jurisdiction. In the case where a bottom-up approach can be adopted, it should not be denied.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	No	• The approach should be based on IAIG´s management practices and characteristics of jurisdictions. The bottom-up approach should be permitted when IAIG can use it.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	No	Taxes are local and need local future profits. The only way to be able to reflect this appropriately is by assessing the local tax implications in the material tax jurisdictions in which the IAIG is operating—for example through creating ICS balance sheets and capital requirements for the material tax jurisdictions for the IAIG.
Legal & General	UK	No	No	No we do not believe this is an appropriate treatment. Whilst we appreciate the design is aiming for practicality and comparability we feel that the current approach is over-simplified and results in deferred tax impacts that do not reflect the actual real tax impacts of the ICS adjustment. For example: • Some of the tax adjustments might not be tax-effected, e.g. they may not represent adjustments that would be allowable as deductions, or may represent income that would not

				be taxed. • As set out in our response to question 157 we note that tax rates differ significantly across jurisdictions, and the balance of business across the different jurisdictions in which the IAIG operates (which drives the Group ETR) could differ significantly from the location of the business driving the balance sheet differences. Therefore without allowing the extra granularity of splitting the DT adjustment by reference to jurisdiction and tax effecting appropriately, the ICS tax adjustment does not resemble an approximation of actual tax impacts. • Some of the ICS adjustments represent the elimination of assets / liabilities on the GAAP balance sheet. It would seem appropriate that the deferred tax assets / liabilities associated with those would also be eliminated, rather than a different adjustment made through applying the Group ETR. Otherwise the ICS balance sheet has DTA / DTLs that do not in fact relate to any underlying temporary difference between the ICS and tax bases. This would also then be consistent with the treatment of non-insurance entities, and the treatment of DTLs associated with assets subject to deduction from Tier 1 capital resource We appreciate the difficulties that some IAIGs may have in producing data down to this level of granularity across multiple jurisdictions, and therefore we think there is scope to allow for IAIGs to operate a simplified calculation if they choose to do so (and agree this with their Group supervisor). IAIGs could be required to operate a consistent methodology year-on-year in order to address concerns that a specific methodology is chosen in a year in order to achieve a preferred outcome.
Association of British Insurers	United Kingdom	No	Yes	Tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. Firms should be permitted the option of a bottom up tax calculation, which will be more reflective of actual recoverability.
AIG	United States	No	Yes	We believe that a top-down approach is a cost-beneficial way of calculating the tax impact of ICS adjustments. Utilizing a top- down approach with a marginal operating tax rate should provide a reasonable estimate for the underlying tax results. Respondents should be allowed

				to exercise some level of professional judgment in order to apply a marginal operating tax rate as opposed to applying a weighted average in order to capture situations where the weighted average tax rate might be skewed or a set of circumstances requires a more appropriate tax rate. This approach should provide a cost effective way with reasonable accuracy and measurement for the tax related impacts of the valuation approaches utilized.
National Association of Mutual Insurance Companies	United States	No	No	Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	We support the use of a top-down approach but do not support the addition of the utilisation assessment.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes. A bottom up approach would be significantly burdensome.

Q155 Section 8 When the Top-Down approach is applied, is the limitation of the utilisation assessment of the DTA recognised through the ICS adjustment using the net DTL, which is defined in paragraph 492, appropriate? If “no”, please provide in sufficient detail any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Insurance Europe	Europe	No	No	Insurance Europe disagrees with the proposed approach in paragraph 492. The ICS approach is too stringent, the post-shock net DTA should not be capped by the net DTL. The tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. The ICS approach should recognise the loss absorbency of deferred taxes and the ability of future profits to support this on the condition that it can be demonstrated that these future profits will be available. (Note this is also recognised by the IAIS itself in the ICS 2.0 public consultation document see paragraph 500 ‘The utilisation assessment of the DTA recognised through the ICS adjustment and the ICS tax effect on the capital requirement should be assessed at a similar level based on taxable income projections.’) Additionally, Insurance Europe believes that pull-to-par and additional returns from recovery of financial markets should be allowed as a source for recognising DTA.
German Insurance Association	Germany	No	No	We believe the ICS approach is too stringent. It should also be possible to substantiate the post-shock net DTA with future profits if the regulatory capital requirement is met. And on the condition that it can be demonstrated that these future profits will be available. (Note this is also recognised by the IAIS itself in the ICS 2.0 public consultation document see paragraph

				500 'The utilisation assessment of the DTA recognised through the ICS adjustment and the ICS tax effect on the capital requirement should be assessed at a similar level based on taxable income projections.').
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	In general even such a limitation will not be prudent in all cases, i.e. the top-down approach could lead to an too optimistic value of net DTL. Consequently each simplification would have to be justified and would be e.g. acceptable if the porposed limitation ensures a prudent outcome.
Global Federation of Insurance Associations	Global	No	No	Tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. See also answer to Q156.
General Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	The ICS reclassifies DTA to Tier 2 capital due to the prudence, and there's a limit for the basket. So it would be better to admit DTA for which volunteers have performed the utilization test without limitation.
Aegon NV	The Netherlands	No	No	We interpret the specifications that effectively you cannot have a net DTA position on your ICS balance sheet, implying that no future tax recoverability is possible. We would not agree with that assessment (see also our response to Q156) and would suggest alignment with Solvency II, where supervisory concerns around the recoverability of the DTA are addressed through lower capital quality and a limit related to the SCR.
Legal & General	UK	No	No	We do not support this limitation. A DTA that is properly recognised reflects a reduction in future tax payable (or where a jurisdiction operates a loss carry back regime, an actual cash receivable), and therefore an increase in the resources of the relevant IAIG. It should still be possible to recognise any DTA exceeding the amount allowed under the utilisation assessment to the extent that reliable future profit projections are available to support the utilisation of that DTA.

Association of British Insurers	United Kingdom	No	No	The tax capping should be based on the amount that may be reasonably recovered, rather than the balance sheet DTL. See also the answer to Q156 below.
AIG	United States	No	No	This is a significant simplifying assumption and does not necessarily represent the economic reality associated with the ICS adjustment. Professional judgment is required in any qualitative analysis and should be used to assess the impact of the impact the ICS adjustment has on DTA utilisation. Data supporting the conclusions reached by the IAIG for the DTA utilisation assessment recognised through the ICS adjustment should be maintained and available to the supervisors to review if the supervisor deems it appropriate.
National Association of Mutual Insurance Companies	United States	No	No	Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	Again, we support the use of a top-down approach, but do not support the addition of the utilisation assessment.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q156 Section 8 When the Top-Down approach is applied, is the utilisation assessment of the tax effect on the capital requirement using the remaining net DTL, which is defined in paragraph 494, appropriate? If "no", please provide, in sufficient detail, any approach that would consider data limitations, prudence, practicality, and comparability between insurance groups.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	If the IAIG is able to demonstrate that, after the shock-loss corresponding to the ICS, it is able to generate profits, then more DTA can be considered eligible to absorb the shock-loss. These future profits have to be calculated under prudent assumptions reflecting the shock-loss. For instance, return on assets should not be greater than risk-free returns and the profits from new business cannot be higher than those of the business plan.
Insurance Europe	Europe	No	No	Insurance Europe believes that limiting the utilisation assessment to the use of the remaining net DTL for the capital requirement is overly prudent. There are examples of jurisdictions where tax losses can be carried back 1 or even 3 years. In addition, the limitation does not recognise the expectation that an insurance group which holds sufficient capital to meet the required capital will be able to continue in business, and generate profits either through new business or investment return generated on capital. The latter would still arise if an insurer closes to new business and goes into run-off. Both of these items would give rise to tax relief on the capital requirement.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	See our answer to Q155, which also applies to shocked circumstances. Any simplification would have to be justified and prudent. If the IAIG is able to demonstrate that, after the shock-loss corresponding to the ICS, it is able to generate profits, then more DTA can be considered eligible to absorb the shock-loss.

				These future profits have to be calculated under prudent assumptions reflecting the shock-loss. This would typically mean that the shock scenario would be assumed to persist as e.g. mean reversion from such circumstances is speculative. On the other hand, since the calculation at group level is very complex, we would prefer to more generally agree with the simplification proposed, not only in the case where the top-down approach is used. If we understand it correctly, under the ICS, the DTA and DTL determined with the top-down approach are simply added. In reality, we do not think that in general a group can utilise the DTA of one of its entities against the DTL of another entity. So you could say that the proposed restriction sort of compensates. Thus, a justuification of prudency should be required.
Global Federation of Insurance Associations	Global	No	No	GFIA takes the view that limiting the utilisation assessment to the use of the remaining net DTL for the capital requirement is overly prudent. In the UK and Ireland, tax losses can be carried back one year. In Canada, tax losses can be carried back 3 years. In these territories, it is possible to assume that a part of the capital requirement could be carried back and would give rise to repayment of tax paid on past profits. In addition, the limitation does not recognise the expectation that an insurance group that holds sufficient capital will be able to continue in business, and generate profits either through new business or investment return generated on capital. The latter would still arise if a business closes to new business and goes into run-off. Both of these items would give rise to tax relief on the capital requirement.
Dai-ichi Life Holdings, Inc.	Japan	No	No	We agree with the concept of evaluating the utilisation of tax effect on the basis of future profits. However, the proposed treatment is overly conservative. Many ICS risks in life insurance companies (interest rate risk, morbidity risk, etc.) are exposed and realized in stages over a long period. Concerning the reflection of tax effect, therefore, the benefits arising from the acquisition of future contracts and excess returns that will be obtained in the future from owned assets should also be taken into account. Also, the fact should be taken into account that Japanese life insurance companies maintain a high level of taxable income even in an extremely low interest rate environment.
General Insurance Association of Japan	Japan	No	Yes	

The Life Insurance Association of Japan	Japan	No	No	• While the LIAJ agrees with the concept of assessing the availability of tax effect based on future profits, the proposed treatment in this consultation document is overly conservative. Many of the ICS risks in life insurers, such as interest rate risks and morbidity risks, will actually occur over long-time. Therefore, the reflection of tax effects should take into account the profits arising from future acquisition/sale of contracts, the future excess returns from assets held and the differences in tax regimes in each jurisdiction. It should be noted that life insurers in Japan maintain a high level of taxable income even in an extremely low interest rate environment.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	Some volunteers could be at DTA positions in GAAP and MAV BS. Limiting the loss absorbency capacity of capital requirement due to prior position may be excessive. Average pre-tax income of the group (ex. 3 year, 5 year) could be used as a source of utilization assessment for current year tax effect. After a shock scenario, the average income can be an additional source to utilize the stress tax impact through tax carry fowrard with haircut for prudence.
Aegon NV	The Netherlands	No	No	We are not in favor of the imposed ceiling to the loss absorbing capacity of deferred taxes in the capital requirement as it does not recognize future profitability like LAC DT in Solvency II does. Taking into account future profits is a more balanced approach as leaving them out would lead to excessive capital requirements distorting level playing fields between internationally operating insurance entities/groups. Again, only a bottom-up approach recognizing the specifics of the local tax jurisdiction is the only way to properly reflect the tax deductibility of the implied loss.
Legal & General	UK	No	No	As per our response to Q155, any future profits projections supporting a DTA on the tax effect of the capital requirement should take into account any impacts arising as a result of the 1-in-200 year stress.
Association of British Insurers	United Kingdom	No	No	The ABI believes that limiting the utilisation assessment to the use of the remaining net DTL for the capital requirement is overly prudent. In the UK and Ireland, tax losses can be carried back one year. In Canada, tax losses can be carried back 3 years. In these territories, it is possible to assume that a part of the capital requirement could be carried back and would give rise to repayment of tax paid on past profits.

				In addition, the limitation does not recognise the expectation that an insurance group that holds sufficient capital will be able to continue in business, and generate profits either through new business or investment return generated on capital. The latter would still arise if a business closes to new business and goes into run-off. Both of these items would give rise to tax relief on the capital requirement. This has been explicitly confirmed by EIOPA in its recent consultation on the Loss Absorbing Capacity of Deferred Taxes (LAC DT) under Solvency II, which is the equivalent of the tax effect on the ICS capital requirement.
AIG	United States	No	No	The restriction of only permitting the tax-effect on the capital requirement to the extent that the insurer is in a net DTL position would, in a practical sense, not provide recognition for DTA loss absorption on a go-forward basis after a stress event. In particular, it does not account for the ability to generate future profits that have been accepted as a valid basis for recognizing tax relief by other regulators (including the European Commission). The limit on tax relief on the capital requirement should not be more prudent than the limit allowed by existing regulators. Furthermore, this restriction may artificially limit the recognition of the tax effect on the capital requirement for non-life insurance businesses, relative to life companies, since deferred taxes primarily arise as a consequence of large events (such as related to CAT risk) which are uncorrelated with financial risk factors that typify stress events. As a result, non-life companies would be limited in their ability to recognize the potential DTAs generated in a stress event (as proxied by ICS required capital). The utilization assessment of the tax effect on the capital requirement should build as much as possible on currently existing approaches and information and should not require new and different approaches since insurers already have detailed approaches and information regarding tax included in GAAP, existing regulatory reporting, and well defined internal capital frameworks. We strongly believe that the utilization assessment should be more economically-based, forward-looking view of the loss absorbing capacity of DTA – relating to both its role within existing capital resources as well as the tax effect on capital requirements (which is essentially a reflection of the degree to which the prospective DTAs generated in an ICS loss scenario would be recognized as loss absorbing).

National Association of Mutual Insurance Companies	United States	No	No	Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable.
Prudential Financial, Inc.	United States of America	No	No	Please see our responses to questions 152 and 154.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q157 Section 8 Is the 2018 Field Testing group effective tax rate calculation based on the jurisdictional audited GAAP consolidated financial statements a reasonable approach for ICS Version 2.0? If “no”, please provide any other proposed method for calculating a group effective tax rate with a rationale for the methodology.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	No	

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	If the top-down approach is used, this seems a reasonable approach.
Insurance Europe	Europe	No	No	Insurance Europe highlights that the group effective tax rate is calculated on the aggregation of different businesses, potentially in different jurisdictions, with different tax profiles. However, Insurance Europe notes that some IAIGs may have a preference for the top-down approach, and therefore would suggest IAIGs could be given the alternative of a top-down or the bottom-up approach.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	This again is a simplification which has to be challenged against a bottom-up approach.
Global Federation of Insurance Associations	Global	No	No	The group effective tax rate is calculated on the aggregation of different businesses, potentially in different jurisdictions, with different tax profiles. GFIA notes that some IAIGs may have a preference for the top-down approach, and therefore would suggest IAIGs could be given the alternative of a top-down or bottom-up approach.
Dai-ichi Life Holdings, Inc.	Japan	No	No	The method of calculating the group effective tax rate using the consolidated financial statements proposed in 2018FT is very volatile and not appropriate. Regarding the tax effect, when bottom up calculation based on the tax rate applied for accounting is possible, it is appropriate to allow bottom up calculation, and tax rate calculation based on the jurisdictional audited GAAP consolidated financial statements should be used as a simplification method in the case where bottom up calculation is impossible.
General Insurance Association of Japan	Japan	No	Yes	

The Life Insurance Association of Japan	Japan	No	No	• The calculation method of group-based effective tax rate which is proposed in the 2018 Field Testing and is based on the consolidated financial statement will be significantly volatile and inappropriate. It is appropriate to allow bottom-up calculation of tax effects based on the tax rate applied in jurisdictional accounting and proposed method should be used as a simplification methods when bottom-up is impossible.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	It could be too volatile due to one-time events. Statutory tax rates that may be applied to average income can be an alternative.
Aegon NV	The Netherlands	No	No	The current approach is very volatile, even in a three year average approach. The effective tax rate should be a fair weighting of nominal tax rate (ideally by capital requirement per (material) tax jurisdiction, or otherwise using operating earnings or insurance liability per tax regimes as weights). Relative to a backward-looking average, a current nominal tax rate better reflects the expected reality when future losses would occur as implied by the capital requirement. If the IAIS deems the use of nominal rates inappropriate, the IAIS could consider applying a haircut on nominal tax rates per tax regime to reflect effective tax rates. Either way, a true effective tax rate can only be established through a bottom-up calculation.
Legal & General	UK	No	No	We do not support a Group effective tax rate approach, but believe that adjustments should at the very least be split by jurisdiction so that the tax impact reflects more correctly the actual tax effects of the ICS adjustment.
Association of British Insurers	United Kingdom	No	No	The group effective tax rate is calculated on the aggregation of different businesses, potentially in different jurisdictions, with different tax profiles. The ABI notes that some IAIGs may have a preference for the top-down approach due to its lower complexity while other might prefer the complex bottom-up approach due to its higher accuracy, and therefore we would suggest IAIGs could be given the alternative of a top-down or a bottom-up approach.
AIG	United States	No	No	To the extent an IAIG is able to calculate a more appropriate forward looking tax rate to be applied in a given fact pattern it should have the flexibility to do so. Data supporting the conclusions reached by the IAIG for the group effective tax rate should be maintained and available to the supervisors to review if the supervisor deems it appropriate.

National Association of Mutual Insurance Companies	United States	No	No	While this may be a better method than other approaches noted, Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable
Prudential Financial, Inc.	United States of America	No	Yes	
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No. Group tax rates should be based on future enacted rates to more closely reflect the economics of the ICS balance sheet.

Q158 Section 8 Should an adjustment for non-recurring items be included in the group effective tax rate calculation? If “yes”, please provide the following information: • Details on the proposed methodology

• Rationale for the methodology
• A definition and listing of non-recurring items.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	Yes	Insurance Europe notes that the ICS is intended to be a globally comparable risk-based measure of capital adequacy (ICS Principle 1). Its main objectives are the protection of policyholders and to contribute to financial stability (ICS Principle 2). The tax position under ICS should therefore be adjusted for tax items that do not reflect tax on profit or non-recurring items that will distort the effective tax rate, and therefore the long-term rate of tax expected to be experienced by the insurance group. This will serve to reduce year-on-year volatility in the tax rate. For example: • In the UK, tax for life insurance includes tax payable on policyholder investment returns. This tax is borne by the policyholders and therefore typically has no impact on the capital position of the insurance group. Policyholder tax will however lead to a very volatile group effective tax rate. There are similar regimes in Ireland and Singapore. • Profits or losses arising on the sale of businesses are commonly taxed at a lower rate (or not taxed at all if there is a participation exemption). In the year of sale this will commonly distort the group effective tax rate. An alternative would be to apply the group effective tax rate on operating profit, which should remove distortions due to items such as UK policyholder tax or non-recurring non-operating

				items. Operating profit is a non-GAAP measure, but is commonly used by insurance groups as the measure of sustainable profits generated from insurance operations. In order for the impact of these adjustments to be considered properly by group wide supervisors and host supervisors, Insurance Europe would suggest that the insurance group should be required to produce a reconciliation between the group effective tax based on the group accounts and the group effective rate used in the ICS. Insurance Europe would expect that over the 5-year monitoring period, a common understanding of the impact of such items will be reached between supervisors and insurance groups.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	The ICS is intended to be a globally comparable risk-based measure of capital adequacy (ICS Principle 1). Its main objectives are the protection of policyholders and the maintenance of financial stability (ICS Principle 2). The tax position under ICS should therefore be adjusted for tax items that do not reflect tax on profit or non-recurring items that will distort the effective tax rate, and therefore the long-term rate of tax expected to be experienced by the insurance group. This will serve to reduce year-on-year volatility in the tax rate. For example: (1) In the UK, tax for life insurance includes tax payable on policyholder investment returns. This tax is borne by the policyholders and therefore typically has no impact on the capital position of the insurance group. Policyholder tax will however lead to a very volatile group effective tax rate. There are similar regimes in Ireland and Singapore. (2) Profits or losses arising on the sale of businesses are commonly taxed at a lower rate (or not taxed at all if there is a participation exemption). In the year of sale, this will commonly distort the group effective tax rate.

				An alternative would be to apply the group effective tax rate on operating profit, which should remove distortions due to items such as UK policyholder tax or non-recurring, non-operating items. Operating profit is a non-GAAP measure, but is commonly used by insurance groups as the measure of sustainable profits generated from insurance operations. In order for the impact of these adjustments to be considered properly by GWSs and host supervisors, GFIA would suggest that the insurance group should be required to produce a reconciliation between the group effective tax based on the group accounts and the group effective rate used in the ICS. GFIA would expect that over the 5-year monitoring period, a common understanding of the impact of such items will be reached between supervisors and insurance groups.
Dai-ichi Life Holdings, Inc.	Japan	No	No	When bottom up calculation based on the tax rate applied for accounting is possible, it is appropriate to allow bottom up calculation. In order to stabilize the effective tax rate, it is convenient to adopt a method using the average over the past few years or a method to calculate consolidated effective tax rate by weighted average effective tax rate of each company in the group based on some indicator . At that time, it is possible to make some upper and lower limits on the range of the tax rate. It is difficult to define internationally consistent non-recurring items. In addition, the specific "adjustment to non-recurring items" specification becomes complicated. Instead of unifying specifications, it should be set in each jurisdiction.
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	• It is appropriate to allow bottom-up calculations based on the tax rates applied in jurisdictional accounting. • In order to stabilise the effective tax rate, it is convenient to use the average effective tax rate of the past several years or to calculate the consolidated effective tax rate by weighted

				averaging of the effective tax rates of each company in the group based on some criteria. It is worth considering to set some upper and lower limits of the range of the effective tax rate. • It will be difficult to make the internationally consistent definition of non-recurring items. In addition, specifications of "Adjustment for non-recurring items" should be set in each jurisdiction because it will be impossible to avoid the complications.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Aegon NV	The Netherlands	No	Yes	As indicated in Q157, we believe the only way to get to a fair representation of the effective tax rate is through the use of a bottom-up approach. Having said that, for a top-down approach, we believe a nominal rate would be more appropriate as the implied loss by the capital requirement is significant enough to simplify the problem by assuming that the nominal tax rate is the effective tax rate.
Legal & General	UK	No	Yes	The key point is that applying a one-off tax rate impact to a long-term balance sheet is not appropriate, and the rate should be the long-term projected tax rate. The simplest solution could be to tax effect the ICS adjustment at the average closing deferred tax rate, however this would also not be a perfect solution as the mix of the closing deferred tax balances by jurisdiction may have no resemblance to the mix by jurisdiction of the ICS adjustment. As above we therefore support applying the correct tax rate per jurisdiction to each element of the ICS adjustment. Alternatively if a Group effective tax rate methodology were used then adjustments should be allowed for significant one off tax impacts – e.g. in 2017 the ETR was significantly skewed by the change in US tax rate. It would be difficult to list every possible non-recurring item, however changes in tax rates, business disposals and anything that would be classified as an 'exceptional item' for accounting purposes may be a starting point. However it may be necessary to allow some level of discretion to be applied by the IAIG.
Association of British Insurers	United Kingdom	No	Yes	The ICS is intended to be a globally comparable risk-based measure of capital adequacy (ICS Principle 1). Its main objectives are the protection of policyholders and the maintenance

				of financial stability (ICS Principle 2). The tax position under ICS should therefore be adjusted for tax items that do not reflect tax on profit or non-recurring items that will distort the effective tax rate, and therefore the long-term rate of tax expected to be experienced by the insurance group. This will serve to reduce year-on-year volatility in the tax rate. For example: (1) In the UK, tax for life insurance includes tax payable on policyholder investment returns. This tax is borne by the policyholders and therefore typically has no impact on the capital position of the insurance group. Policyholder tax will however lead to a very volatile group effective tax rate. There are similar regimes in Ireland and Singapore. (2) Profits or losses arising on the sale of businesses are commonly taxed at a lower rate (or not taxed at all if there is a participation exemption). In the year of sale, this will commonly distort the group effective tax rate. An alternative would be to apply the group effective tax rate on operating profit, which should remove distortions due to items such as UK policyholder tax or non-recurring, non-operating items. Operating profit is a non-GAAP measure, but is commonly used by insurance groups as the measure of sustainable profits generated from insurance operations. This could apply as a weighted average (by profit) of the current statutory tax rates as they have been applied to the period in question. This has the following advantages: (1) A number of IAIGs already include the weighted average of the current statutory tax rates, i.e., the expected tax rate on the face of the IAIG's tax reconciliation. In these instances, no further calculation would be required and the rate could be easily verified; (2) It would not be subject to the taxation impact of any non-recurring items; and (3) It is unlikely to result in a negative tax rate unless there is a near equal mixture of profit

				and losses within the group's businesses. The disadvantages of the approach compared to the bottom-up approach are: (1) It uses the current statutory tax rate rather than the rate for the period in which is it expected the deferred tax balances will reverse; and (2) As with other top-down approaches, it does not take into consideration the tax rules as they may apply in individual jurisdictions. In order for the impact of these adjustments to be considered properly by GWSs and host supervisors, the ABI would suggest that the insurance group should be required to produce a reconciliation between the group effective tax based on the group accounts and the group effective rate used in the ICS. The ABI would expect that over the 5-year monitoring period, a common understanding of the impact of such items will be reached between supervisors and insurance groups.
AIG	United States	No	Yes	Non-recurring items can have a significant impact on historic tax rates and should be normalized for purposes of the group effective tax rate calculation if a forward looking tax rate is not used as proposed in Q157. Non-recurring items may include (but are not limited to) the following: 1. Tax Law Changes, including newly enacted tax rates 2. Impact of one-time events or transactions 3. Impact of prior-year tax return true-ups 4. Impact of changes in uncertain tax positions 5. Impact of tax exams or tax authority settlements 6. Valuation allowance establishment or release

Prudential Financial, Inc.	United States of America	No	Yes	Non-recurring items should be excluded from the group effective tax rate or included as discrete items (i.e. tax rate change, valuation allowance change, etc.).
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q159 Section 8 How should issues like newly announced statutory tax rates, negative tax rates and volatile tax rates be addressed in the group effective tax rate calculation? Please provide the following information:
- Details on the proposed methodology
- Rationale for the methodology

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	This issue is resolved by reporting the group effective tax rate as a metric but excluding it from the calculation of DTAs/DTLs.	

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	The effective tax rate used should be stable over years, to avoid unreasonable volatilities to the solvency ratios. We suggest removing any one-off or temporary impacts in calculating the effective tax, but any announced changes by tax authorities should be reflected.	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Accounting frameworks provide for reasonable approaches on how to reflect on (expected, announced, future) changes in statutory tax rates.	
Insurance Europe	Europe	No	Insurance Europe considers that issues should be dealt with in accordance with the requirements of IAS 12 (the international accounting standard on Income Taxes). This requires tax to be calculated based on rates and legislation which have been substantively enacted. Under IAS 12, disclosure is also required of the effect of any tax changes that have been announced but not yet enacted. Group accounts prepared in accordance with IAS 12 will therefore already include disclosure on these issues (if material). The ICS should not therefore impose additional requirements.	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	The accounting framework provides for reasonable approaches on how to reflect on (expected, announced, future) changes in statutory tax rates.	
Global Federation of Insurance Associations	Global	No	GFIA considers that issues should be dealt with in accordance with the requirements of IAS 12 (the international accounting standard on Income Taxes). This requires tax to be calculated based on rates and legislation which have been substantively enacted. Under IAS 12, disclosure is also required of the effect of any tax changes that have been announced but not yet enacted. Group accounts prepared in accordance with IAS 12 will therefore already include disclosure on these issues (if material). The ICS should not therefore impose additional requirements.	
Dai-ichi Life Holdings, Inc.	Japan	No	When bottom up calculation based on the tax rate applied for accounting is possible, it is appropriate to allow bottom up calculation. In order to stabilize the effective tax rate, it is convenient to adopt a method using the average over the past few years or a method to calculate consolidated effective tax rate by	

			weighted average effective tax rate of each company in the group based on some indicator . At that time, it is possible to make some upper and lower limits on the range of the tax rate. It is difficult to define internationally consistent non-recurring items. In addition, the specific "adjustment to non-recurring items" specification becomes complicated. Instead of unifying specifications, it should be set in each jurisdiction.	
General Insurance Association of Japan	Japan	No	The statutory tax rate announced after the reference date should not be applied on the group effective tax rate. Such application is not appropriate since the announcement of the statutory tax rate could be delayed and such application may bring inconsistencies between the IAIGs within the same jurisdiction. The tax effect has a significant impact on the ICS ratio. Therefore, group effective tax rates should be stable, and the application of negative tax rates should be avoided. For example, a group effective tax rate could be calculated based on the statutory tax rate of each jurisdiction and the weighted average of the items, such as liabilities, which represent risk amounts.	
The Life Insurance Association of Japan	Japan	No	- It is appropriate to allow bottom-up calculations based on the tax rates applied in jurisdictional accounting. - In order to stabilise the effective tax rate, it is convenient to use the average effective tax rate of the past several years or to calculate the consolidated effective tax rate by weighted averaging of the effective tax rates of each company in the group based on some criteria. It is worth considering to set some upper and lower limits of the range of the effective tax rate. - It is considered difficult to make the internationally consistent definition of non-recurring items. In addition, specifications of "Adjustment for non-recurring items" should be set in each jurisdiction because it will be impossible to avoid the complications.	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	The statutory tax rate that may be applied to average income can be an alternative. The tax rate applied to the year of stress may be reasonably used to calculate stress tax impact. For the utilization test of stress tax effect, ICS may use newly announced statutory	

			tax rates for the tax carry forward period. This structure is similar to accounting principle. In accounting, the company caculate current tax with the tax rate applied to the income level of the year, and it calculate DTA/DTL using the future income and future tax rates.	
Aegon NV	The Netherlands	No	We believe that the use of a current weighted average nominal tax rate is a preferable approach and can address concerns related to negative and/or volatile historical tax rates.	
Legal & General	UK	No	The tax rate applied should be the best estimate of what the future tax rate is expected to be. We would support applying the IFRS approach whereby the rates and laws applied are those that are substantively enacted into law at the balance sheet date.	
Association of British Insurers	United Kingdom	No	The ABI considers that issues should be dealt with in accordance with the requirements of IAS 12 (the international accounting standard on Income Taxes). This requires tax to be calculated based on rates and legislation which have been substantively enacted. Under IAS 12, disclosure is also required of the effect of any tax changes that have been announced but not yet enacted. Group accounts prepared in accordance with IAS 12 will therefore already include disclosure on these issues (if material). The ICS should not therefore impose additional requirements.	
AIG	United States	No	Since the ICS exercise is focused on the IAIG´s consolidated balance sheet, historical group effective tax rate data is not necessarily the most appropriate metric to use as a projection tool. To the extent an IAIG is able to calculate a more appropriate forward looking effective tax rate based on a demonstrable fact pattern it should have the flexibility to do so. Data supporting the conclusions reached by the IAIG for the group effective tax rate should be maintained and available to the supervisors to review if the supervisor deems it appropriate.	
Prudential Financial, Inc.	United States of America	No	One potential method to consider leveraging is that within U.S. GAAP, which allows for the use of a discrete method, or to treat certain non-recurring items as discrete items, in calculating total tax impact.	

Property Casualty Insurers Association of America (PCI)	USA	No	We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.	

Q160 Section 8 Regardless of the determined MOCE design, should any DTA arising from MOCE be considered for the ICS calculation? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Insurance Europe	Europe	No	Yes	Insurance Europe highlights that MOCE is a part of the framework and as such its impact should also be taken into account. If the MOCE is an add-on to the current/best estimate in the balance sheet, then it is not part of the current/best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, in the balance sheet a loss is recognised and a DTA is created for the MOCE, this loss, and the related DTA, is expected to recover itself. If the DTA would not be taken into account, there would be an inconsistent treatment between assets and liabilities.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	We suggest to follow a consistent valuation principle, in which the MOCE would be natural part of the value of the technical provisions and thus not source of additional benefits. See our remark to Q161. If any deferred taxes resulting from MOCE would be considered. However, it is agreed that the calculation of the effects can be complex and may require simplifications, which in turn may affect the relevance of the calculations.

Global Federation of Insurance Associations	Global	No	Yes	Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised. If MOCE is to be part of the ICS framework, its DTA impact should also be taken into account. The MOCE is an add-on to the current/best estimate in the balance sheet. It is not part of the current/best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, in the balance sheet a loss is recognised and a DTA is created for the MOCE. This loss, and the related DTA, is expected to recover itself. If the DTA were not to be taken into account, there would be an inconsistent treatment between assets and liabilities.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	If MOCE is recognized as part of the insurance liability, the tax effect should be recognized as a matter of course because an adjustment amount is generated between the tax accounting insurance liability of each jurisdiction and the ICS insurance liability.
General Insurance Association of Japan	Japan	No	Yes	The ICS calculation should consider the DTA arising from MOCE. We think MOCE is part of insurance liability. Therefore, it should be recognized after tax in line with the difference of MAV´s current estimate and GAAP.
The Life Insurance Association of Japan	Japan	No	Yes	• If MOCE is recognised as a part of the assessment of insurance liabilities, the tax effect should be recognised as a matter of course, because new differences arise between the insurance liability of tax accounting of each jurisdiction and the insurance liability of the ICS.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Aegon NV	The Netherlands	No	Yes	If the MOCE, as the “margin over current estimate” is to be seen as a balance sheet item as part of the insurance liability, it will trigger a temporary difference with the tax balance sheet. As such, and given the fact that the ICS is a “going concern” standard, the tax authorities would absorb a portion of the risk captured by the MOCE. Since the MOCE is not calculated

				on a post-tax basis, this benefit should be reflected through a DTA. Note that this overlaps with Q161 and Q162.
Legal & General	UK	No	Yes	Yes. There is no clear rationale for treating this any differently to other valuation differences. If the MOCE is an element of liabilities then it gives rise to a temporary difference between the tax and ICS bases. From first principles it should therefore be tax-effected as it properly represents a difference between tax projected under two bases. That is to say, we assume (we would prefer for there to be a clear basis of preparation so that assumptions are not required) that there is an underlying presumption when calculating the ICS balance sheet that the assets and liabilities will be settled at the values at which they are held on the balance sheet. Therefore there is an assumption that the MOCE will flow into the tax base as a future deduction for which tax credit should be expected to be available.
Association of British Insurers	United Kingdom	No	Yes	Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised. The MOCE is an add-on to the current/best estimate in the balance sheet. It is not part of the current/best estimate cash flows, but is established as an additional provision for uncertainty; thus, by definition it is expected to reverse over time and is not expected to impact taxable income. As such, in the balance sheet a loss is recognised and a DTA is created for the MOCE. This loss, and the related DTA, is expected to recover itself. If the DTA were not to be taken into account, there would be an inconsistent treatment between assets and liabilities.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q161 Section 8 Should any DTA arising from MOCE be added to capital resources for the ICS ratio calculation? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Insurance Europe	Europe	No	Yes	See response Q160
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	If the MOCE is included in the ICS ratio calculation, then the tax relief on the MOCE should also be included.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	If MOCE is recognized as part of the insurance liability, the tax effect should be recognized as a matter of course because an adjustment amount is generated between the tax accounting insurance liability of each jurisdiction and the ICS insurance liability.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	• If MOCE is recognised as a part of the assessment of insurance liabilities, the tax effect should be recognised as a matter of course, because new differences arise between the insurance liability of tax accounting of each jurisdiction and the insurance liability of the ICS.

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
American Council of Life Insurers	Office of General Counsel	No	Yes	While we disagree with the MOCE concept, it is not logical for MOCE to be considered as a component of the insurance liability valuation but excluded from the calculation of deferred tax assets. Any MOCE should generate a DTA.
Aegon NV	The Netherlands	No	Yes	We see no reason not to include this DTA. See also Q160.
Legal & General	UK	No	Yes	A DTA that is properly recognised reflects a reduction in future tax payable, and therefore an increase in the resources of the relevant IAIG. This would apply whatever formulation of MOCE is used.
Association of British Insurers	United Kingdom	No	Yes	If the MOCE is included in the ICS ratio calculation, then the tax relief on the MOCE should also be included.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q162 Section 8 Would the response to Question 161 differ depending on classification on the balance sheet and defined purpose of MOCE? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

Insurance Europe	Europe	No	No	Please refer to the response to question 160. Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.
Global Federation of Insurance Associations	Global	No	No	See answer to Q160. Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	If MOCE is recognized as part of the insurance liability, the tax effect should be recognized as a matter of course because an adjustment amount is generated between the tax accounting insurance liability of each jurisdiction and the ICS insurance liability.
General Insurance Association of Japan	Japan	No	No	If MOCE is to be categorized as a liability other than an insurance liability, then it should be recognized after tax in line with other items. If MOCE is identified as a deduction from capital, then it should be calculated after tax.
The Life Insurance Association of Japan	Japan	No	Yes	• If MOCE is recognised as a part of the assessment of insurance liabilities, the tax effect should be recognised as a matter of course, because new differences arise between the insurance liability of tax accounting of each jurisdiction and the insurance liability of the ICS.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
American Council of Life Insurers	Office of General Counsel	No	No	While we disagree with the MOCE concept, it is not logical for MOCE to be considered as a component of the insurance liability valuation but excluded from the calculation of deferred tax assets. Any MOCE should generate a DTA.
Aegon NV	The Netherlands	No	Yes	Every balance sheet difference between the ICS and the tax balance sheet—including MOCE within the liability valuation--represents a temporary difference for which a DTA should be counted for as (additional) available own funds. A MOCE that does not have a

				balance sheet impact does not make conceptual sense, but such a MOCE would not create a temporary tax difference and should not generate a MOCE.
Legal & General	UK	No	No	No, we do not see any rationale for a different response to the one given, for either C-MOCE or P-MOCE.
Association of British Insurers	United Kingdom	No	No	See answer to Q160. Irrespective of the way in which the MOCE is calculated, it represents an adjustment to the valuation of liabilities that are deductible for tax purposes and hence is also tax deductible. It therefore represents a temporary difference on which deferred tax should be recognised.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes. MOCE that is part of insurance liabilities should be net of tax. MOCE that is part of equity should not be tax affected.

Q163 Section 8 Should the ICS tax effect on the capital requirement be offset against the gross capital requirement? If “no”, please describe how the capital requirement should be classified including sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	No	Based on the fact that existing DTAs can at best qualify for tier 2 capital resources, future DTAs that do not exist today and would only be created under a stress should not receive

				better treatment. Given the generally prudent methodology for determining the stress DTA, all of this amount should be added to tier 2 capital resources instead of being subtracted from the capital requirement.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
Insurance Europe	Europe	No	Yes	
Global Federation of Insurance Associations	Global	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	We strongly support this treatment.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	• The LIAJ strongly supports this treatment.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Aegon NV	The Netherlands	No	Yes	
Legal & General	UK	No	Yes	We believe that this is the logical treatment. Our interpretation of the ICS tax effect is that it represents the offset to the simulated loss as a result of the ability of offset current year losses against future profits. Without the capital-driving stresses the tax effect doesn't arise and therefore the two should be treated consistently.

Association of British Insurers	United Kingdom	No	Yes	
AIG	United States	No	Yes	The ICS tax effect on the capital requirement should be offset against the gross capital requirement.
Prudential Financial, Inc.	United States of America	No	Yes	
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q164 Section 8 Are there any further comments on the ICS tax treatment that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	

Insurance Europe	Europe	No	Yes	Insurance Europe supports a simple approach to ICS tax treatment. IAIGs will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information. Insurance Europe believes a bottom-up assessment should be allowed where IAIGs have the ability to perform such an assessment, or already perform such an assessment. The top down approach should be an approximation in cases where the bottom up assessment is not performed. In addition, Insurance Europe also believes that a common understanding of the tax position can be achieved during the 5-year monitoring period.
German Insurance Association	Germany	No	Yes	The IAIS proposal is clearly more restrictive than Solvency II. Therefore the related tax amounts are a part that needs to be amended in the monitoring phase.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	GFIA supports a simple approach to ICS tax treatment. Insurance groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information. GFIA takes the view that a bottom-up assessment should be allowed where groups have the ability to perform such an assessment, or already perform such an assessment. The top down approach should be an approximation in cases where the bottom-up assessment is not performed. GFIA also takes the view that a common understanding of the tax position can be achieved during the 5-year monitoring period. The tax design change in the technical specifications should be amended. The proposed treatment is too conservative, and future returns obtained from holding assets should be taken into consideration.

Dai-ichi Life Holdings, Inc.	Japan	No	Yes	Cash flow of life insurance companies is over long-term. Therefore, most of the effects of stress assumed in ICS risk amount measurement actually are exposed and realized over time. In this time, IAIG would continue its sales activities and earns profits through sales of new contracts. Concerning tax treatment in ICS, therefore, the profits gained through the sale of future new contracts should also be taken into account.
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	Yes	• Since the cash flows of life insurers last very long, many of the stress effects assumed in the ICS risk quantification will actually occur over time. During that time, the IAIG will continue to operate and make profits from the sale of new contracts. Therefore, the tax treatment in the ICS should take into account the profits gained from the potential sale of new contracts.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
American Council of Life Insurers	Office of General Counsel	No	Yes	The holistic treatment of taxes within the ICS is another important area where greater clarity, coherence, and consistency is needed. While the ICS approach to both Valuation and Capital Requirements is based on a forward-looking economic assessment, its construct for taxes is notably less risk-sensitive in that it relies on hard-wired limits and restrictions that do not take into account a company's projected ability to monetize tax attributes post-stress. We believe the current proposal remains largely a placeholder solution, which appears to be aligned from a conceptual standpoint to the rationale applied under the Basel Accord for banks. While Basel restricts DTA (based on temporary differences) to 10% of a bank's Tier 1 common equity capital, the IAIS is proposing a conceptually comparable 10% limit of the ICS capital requirement as part of the "Tier 2 basket". It is unclear to us how this 10% cap was calibrated, other than as a simple placeholder and its potential relation to the Basel framework. Furthermore, the IAIS acknowledges that further analysis is required since "DTAs for most Volunteer Groups are near historic lows and thus, this analysis may not be reflective of the impact of limits in a less favorable environment where DTAs could be much

				higher" (Source: March 2018 Field Testing Workshop Presentation). However, the potential realization of DTA under conditions of economic stress could differ for an insurance group with diversified financial and non-financial risks, relative to a banking organization concentrated in financial risk whose earnings might, in turn, be more volatile under stress. While we agree that it would be undesirable and inappropriate for DTAs to comprise an inordinate amount of an insurer's capital base, it is also important to recognize that, particularly in a going concern context, DTA generated by financial losses provide a pathway to rebuilding capital after a stress event. From a financial stability standpoint, overly restrictive limits on DTA could potentially be pro-cyclical, if such limits were to artificially constrain an insurer's ability to recapitalize after incurring significant but survivable losses. Notably, we encourage the IAIS to allow for a more economically-based, forward-looking view of the loss absorbing capacity of DTA – relating to both its role within existing Capital Resources as well as the ICS approach to tax-effecting ICS Capital Requirements (which is essentially a reflection of the degree to which the prospective DTAs generated in an ICS loss scenario would be recognized as loss absorbing). The restriction of permitting the tax-effecting of required capital only to the extent that the insurer is in a net DTL position would, in a practical sense, not provide recognition for DTA loss absorption on a go-forward basis after a stress event. The valuation of deferred taxes should build on the same principles as the valuation of other assets, i.e. it should be based on an economic valuation on a going concern basis, based on its loss absorbing capacity. Insurance Groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting or well defined internal capital frameworks. The ICS tax treatment should build as far as possible on these existing approaches and information and should not require new and different approaches. Finally, while we disagree with the MOCE concept, it is not logical for MOCE to be considered as a component of the insurance liability valuation but excluded from the calculation of deferred tax assets. Any MOCE should generate a DTA.

Aegon NV	The Netherlands	No	Yes	Dealing with differences between the calculation of taxable shock losses and future profits on the one hand and "ICS" shock losses and profits/gross capital generation on the other hand, requires a realistic bottom up calculation of local tax positions. In order to get to a realistic view of recovery of losses through taxes, tax law facilities or approaches like tax planning strategies should be allowed for in the calculation of recoverability.
Legal & General	UK	No	No	No further comments at this stage
Association of British Insurers	United Kingdom	No	Yes	The ABI supports a simple approach to ICS tax treatment. Insurance groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information. The ABI believes that a bottom-up assessment should be allowed where groups have the ability to perform such an assessment, or already perform such an assessment. The top down approach should be an approximation in cases where the bottom up assessment is not performed. The ABI also believes that a common understanding of the tax position can be achieved during the 5-year monitoring period.
AIG	United States	No	Yes	We believe the current limit on the recognition of DTA that relies on future profitability remains largely a placeholder solution, which appears to be aligned from a conceptual standpoint to the rationale applied under the Basel Accord for banks. While Basel restricts DTA (arising from temporary differences that could not be realized through net operating loss carrybacks) to 10% of a bank's Tier 1 common equity capital, the IAIS is proposing a roughly comparable 10% limit of the ICS capital requirement as part of the "Tier 2 basket". It is unclear how this 10% limit was calibrated, other than as a simple placeholder and its potential relation to the Basel framework. However, the potential realization of DTA under conditions of economic stress could differ for an insurance group with diversified financial and non-financial risks, relative to a banking organization concentrated in financial risk whose earnings might, in turn, be more volatile under stress. While we agree that it would be undesirable and inappropriate for DTAs to comprise an inordinate amount of an insurer's

				capital base, it is also important to recognize that, particularly in a going concern context, DTA generated by financial losses provide a pathway to rebuilding capital after a stress event. From a financial stability standpoint, overly restrictive limits on DTA could potentially be pro-cyclical, if such limits were to artificially constrain an insurer's ability to recapitalize after incurring significant but survivable losses.
National Association of Mutual Insurance Companies	United States	No	Yes	Tax treatment and should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges. The ICS is not yet fit for purpose. Significant additional work on tax treatment is needed to achieve an appropriate global capital standard and it may be completely unachievable.
RAA	United States and many other jurisdicitons	No	Yes	The treatment of deferred taxes has been an outstanding issue during the ICS Field Testing for several years. We believe the IAIS has merely introduced a placeholder solution, based on the Basel Accord for banks. The potential realization of DTA´s under conditions of economic stress could differ for an insurance group with diversified financial and non-financial risks, relative to banking organizations' whose earnings might be more volatile under stress. This placeholder solution does not provide meaningful results. The valuation of deferred taxes should build on the same principles as the valuation of other assets, i.e. it should be based on an economic valuation on a going concern basis, considering the loss absorbing capacity of this asset. Insurance Groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information and should not require new and different approaches. The limit on tax relief on the capital requirement should not be more prudent than the limit allowed by existing regulators. The proposed limit is the net DTL in the group accounts. However, this does not take account of the ability to carry back losses (and hence generate a repayment of tax) that exists in jurisdictions such as the U.S., Canada, the UK and Ireland. It also does not take account of the ability to generate future profits that have been accepted

				as a valid basis for recognizing tax relief in GAAP and by other supervisors. Furthermore, the Field Test restriction of only permitting the tax-effecting of required capital to the extent that the insurer is in a net DTL position would, in a practical sense, not provide recognition for DTA loss absorption on a go-forward basis after a stress event. While we recognize that DTA´s should not constitute a disproportionate share of a group's Available Capital, we are also concerned that a crude, overly restrictive limitation could potentially be pro-cyclical, as companies emerging from a stress event would be artificially constrained in recognizing the monetization potential and loss absorption capacity of DTA´s.
Prudential Financial, Inc.	United States of America	No	No	
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	We support a simple approach to ICS tax treatment. Insurance groups will already have detailed approaches and information regarding tax included in GAAP and existing regulatory reporting. The ICS tax treatment should build as far as possible on these existing approaches and information. A bottom-up assessment should be allowed where groups have the ability to perform such an assessment, or already perform such an assessment. The top-down approach should be an approximation in cases where the bottom-up assessment is not performed. We also believe that a common understanding of the tax position can be achieved during the 5-year monitoring period.

End of Section 8