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Chairman
International Accounting Standards Board
30 Cannon Street
London
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5 September 2012

Dear Mr. Hoogervorst,

Exposure Draft: Annual Improvements to IFRSs 2010–2012 Cycle

Thank you for providing us with the opportunity to comment on the Exposure Draft on the Annual Improvements to IFRSs 2010-2012 cycle.

This letter has been drafted by the European Insurance CFO Forum, a body representing the views of 20 of Europe's largest insurance companies and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly it represents the consensus view of a significant element of the European insurance industry.

Regarding the IASB's proposal on IAS 12, *Income Taxes* we would like to remind you that we commented on similar proposals made by IFRIC, the predecessor of the current IFRS Interpretation Committee and its Agenda Committee, in 2010. We refer to copies of the letters we sent as the European Insurance CFO Forum on June 11th, August 2nd and October 14th (attached). In these letters we objected to the IFRIC decision to limit the recognition of deferred tax assets (DTAs) when unrealised losses are incurred on investments classified in the available-for-sale (AFS) category.

In summary, we raised the following points with IFRIC relating to this (tentative) decision:

- Valuation changes of AFS debt securities <u>do</u> lead to taxable temporary differences and deductible temporary differences. On these differences deferred tax liabilities (DTL) and deferred tax assets (DTA) exist.
- Inconsistencies in the proposal with US tax rules.
- Discrepancies between the proposal and the existing guidance in IAS 12 *Income taxes*.
- Differences in interpretation of a tax planning opportunity.
- Causing divergence between IFRS and US GAAP.

We regret to see that a similar proposal is now included in the improvements project. We continue to disagree with this proposal because we believe that its outcome does not improve the relevance of financial statements.

- Techniques available to a reporting entity that do not create or increase taxable income but rather avoid taxes that would otherwise be payable should equally represent effective tax planning strategies and, therefore, meet the principle of IAS 12 even though they do not meet the definition of a "tax planning strategy".

- In particular, it does not improve the relevance of financial statements in cases where a negative change in fair value on debt securities is observed at a point in their life and this "unrealised loss" will, in the absence of a specific cause for impairment, be reversed by the passage of time since the asset will have recovered its full value by maturity. These apparent reductions in value are simply the result of market views based on interest-rate movements or illiquidity in markets and will be reversed over time without the holders having to take any action other than to decide to hold the asset to maturity. Discarding this as not being a 'tax planning opportunity' (as stated in the added paragraph 30A) negates the concept of an insurer's Asset and Liability Management (ALM) strategy. Management's decision to either sell, or not sell a debt security is a conscious decision and either way involves tax planning as well.

- Both IFRS 9 and IAS 39 recognise the temporary nature of a capital loss by dealing with it either in OCI, or in the income statement; if it were not temporary it would be recognised in net income as an impairment. By symmetry, this temporary nature must also be admitted for the purposes of the recognition of deferred tax assets, in order not to distort financial reporting.

- If a reporting entity simply holds debt securities to maturity (or until recovery of unrealised losses prior to maturity), temporary taxable differences will never impact taxable profits in future time periods. As a result, it is not logical to require the reporting entity to provide evidence of future taxable profits to recognise DTAs related to unrealised losses reported in equity.

- Accordingly deferred tax assets related to unrealised losses from debt securities measured at fair value through profit or loss or through OCI, which have not been realised for tax purposes, should be recognised because the condition stated in IAS 12.29(a) is always met given the intention and the capacity of the entity to hold the investment in debt securities until its recovery in value (if not, the security should have been impaired). As a result, there will be no tax loss to be absorbed by a potential taxable profit. This is why the taxable profit will for sure be sufficient.

As a last point we question whether this issue is best solved in an improvements project. Considering the potentially far-reaching consequences and the divergent views on this topic we would recommend that this issue is taken up in a more fundamental review of the Standard on income taxes.

Please feel free to contact us if you wish to discuss the matters covered in this letter in more detail.

Yours sincerely,

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Chair, European Insurance CFO Forum

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Encl. CFO Forum letter to IFRIC 14 October 2010

cc. EFRAG