



FINANCIAL REGULATOR
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24th June 2009

Dear Sir/Madam,

We are aware that a number of companies transacting life insurance business in Italy have availed of the opportunity to pay advanced tax payments on the basis of a percentage of funds under management. We understand that this tax may be recouped on exit from policyholders.

We have recently reviewed the treatment of this asset as we are aware that there is some difference in practice and have come to the following initial view.

In our view, the deferred tax asset is specifically excluded from being set off as covering either technical provisions or the required solvency margin. This is covered in article 6.3.5 of the Guidance Notes that were issued covering the 1994 Regulations. It is appreciated that these guidance notes are not of recent date, however there seems no reason, at this point, to view that anything has changed in this regard. This is purely our interpretation at this point.

It is possible that the prepayment of tax may imply that the actuarial liabilities are reduced. However the Appointed Actuary would need to assess whether this is valid and in particular assess asset liability matching and resilience should the reduction be a cash amount to unit reserves and possibly also dependent on there being taxable gains to make a deduction from.

From our review of documentation supplied to us there is a suggestion that the advanced payment may be recoverable in other ways. It may be possible to justify from this that there is an allowable asset; however we would wish to understand more fully such a treatment.

We would be interested to hear of reasons for differing from our initial view. We would appreciate a response in order to allow us to finalise the proper treatment of the Italian withholding tax. Submissions should be made no later than 15th September 2009.

Yours sincerely

Tony Jeffery
Deputy Head of Insurance Supervision Department