9 February 2011

Simon Moulden
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Dear Simon,

Reduction in the Main Rate of Corporation Tax

I am writing to you in response to the publication of the draft clauses on this measure and in particular in relation to the invitation to provide views on the advisability of advance legislation for future corporation tax rate reductions.

We would urge caution in the implementation of this measure which could have adverse effects on the financial statements of concerns with losses, and that in turn could lead to pressure on regulatory capital.

It is not entirely clear what greater certainty would be given to business by making this change. The government is always free to change the law in a future year and it is therefore debateable whether any extra benefit would be obtained by having the intention enshrined in current law as compared to a clear government statement of policy.

Accounting impact

You will be aware of the consequences of both US and UK GAAP/IFRS requirements on the measurement of deferred tax assets. The provisions are slightly different but have broadly the same effect.

UK GAAP/IFRS require that deferred tax assets are measured at the amount expected to be recovered from the taxation authorities using the tax rates (and the tax laws) that have been enacted or substantively enacted by the end of the reporting period. UK GAAP/IFRS (FRS19) also states that a UK tax rate can be regarded as having been substantively enacted if it is included in a Bill that has been passed by the House of Commons and is awaiting only passage through the House of Lords and Royal Assent. IAS 12 does not include such an explicit definintion of substantively enacted (as it is multi-jurisdictional) but the same principle applies.

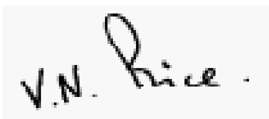
US GAAP accounting requires a change to be recognised at the time the law is enacted and the effect of this on determining the consequences of tax policy changes has to be taken into account. For US Companies accounting under US

GAAP, the impact of a tax law change must be recognised at the date the law is enacted rather than when the change is effective.

For these reasons many concerns would find that this measure, far from giving certainty, would cause them to have to introduce an unexpected accounting charge leading to an uneven allocation of the reduction in value of the losses. This would also feed through into pressure on the regulatory capital.

We hope you find these comments helpful and would be pleased to discuss this matter with you further or provide you with more detailed examples if you would find that helpful.

Yours sincerely



Val Price

Managing Director

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