

**PRA RULEBOOK: SOLVENCY II REFORM INSTRUMENT 2024**

**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
  - (2) section 137T (General supplementary powers);
  - (3) section 192J (Rules requiring the provision of information by parent undertakings).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

**PRA Rulebook: Solvency II Reform Instrument 2024**

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Insurance General Application	B
Minimum Capital Requirement	C
Composites	D
Solvency Capital Requirement – General Provisions	E
Solvency Capital Requirement – Internal Models	F
Technical Provisions	G
Transitional Measure on Technical Provisions	H
Transitional Measures	I
Conditions Governing Business	J
Third Country Branches	K
Insurance – Supervised Run Off	L
Run-off Operations	M
Group Supervision	N

**Commencement**

- D. This instrument comes into force on [31 December 2024].

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**Citation**

E. This instrument may be cited as the PRA Rulebook: Solvency II Reform Instrument 2024.

**By order of the Prudential Regulation Committee**

[DATE]

Near-final

## Annex A

### Amendments to the Glossary Part

In this Annex new text is underlined and deleted text is struck through.

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*ancillary services undertaking*

means:

- (1) an *undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more *credit institutions, investment firms* or *insurers*; or
- (2) in the Solvency II Firms Sector, except in the Financial Conglomerates Part, a *non-regulated undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, health and care services or any other similar activity which is ancillary to the principal activity of one or more *insurers*.

...

*branch best estimate*

means the best estimate of future cashflows of the insurance and reinsurance obligations assumed by a third country branch undertaking in the UK, calculated in accordance with Third Country Branches 6.1A and 6.1C.

...

*capital add-on*

means the amount by which the SCR of a UK Solvency II firm, or the group SCR of a group (as appropriate), is increased by the PRA as a result of a *standard formula significant risk profile deviation, internal model significant risk profile deviation, internal model residual deviation, significant system of governance deviation, significant deviation from relevant assumptions* or (if appropriate) a specific risk existing at group level.

...

*collective investment undertaking*

means a UCITS or an alternative investment fund.

...

*common management relationship*

means:

- (1) (in the CRR firms and Non-CRR firms ~~Sectors~~sectors of the PRA Rulebook) has the meaning given in Article 4(1) CRR;
- (2) (in the Solvency II firms and Non-Solvency II firms ~~Sectors~~sectors of the PRA Rulebook) means a relationship between two or more undertakings which satisfies the following conditions:~~has the meaning given in regulation 2 of the Solvency 2 Regulations;~~
  - (a) the undertakings are not connected in the manner described in section 1162 of, and Schedule 7 to, the Companies Act 2006; and
  - (b) either:
    - (i) the undertakings are managed on a unified basis pursuant to a contract with one of them, or provisions in the undertakings' respective memoranda or articles of association; or

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(ii) the governing bodies of those undertakings consist, for the major part, of the same persons in office during the financial year in respect of which it is being decided whether such a relationship exists; and

(3) (in the Financial Conglomerates Part of the PRA Rulebook) has the meaning given in Article 4(1) CRR.

...

diversification effects

means the reduction in the risk exposure of UK Solvency II firms and (as appropriate) groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.

...

future discretionary benefits

means future benefits of contracts of insurance, other than linked benefits, which have one of the following characteristics:

(1) they are legally or contractually based on one or more of the following results:

(a) the performance of a specified contract or specified group of contracts or type of contract;

(b) the realised or unrealised investment return on a specified pool of assets held by the firm; or

(c) the profit or loss of the firm or fund corresponding to the contract of insurance; or

(2) they are based on a declaration of the firm,

and (in either case) the timing or the amount of the benefits is at the firm's full or partial discretion.

...

general insurance and reinsurance obligations

means insurance and reinsurance obligations falling within lines of business 1 to 28.

...

Gibraltarian insurance undertaking

means an undertaking which:

(1) has its head office in Gibraltar; and

(2) is authorised by the Gibraltar Financial Services Commission to effect or carry out contracts of insurance under paragraph 24 of Schedule 2 to the Financial Services Act 2019 of Gibraltar.

...

institution for occupational retirement provision

means an undertaking, irrespective of its legal form, operating on a funded basis, established separately from any sponsoring undertaking or trade for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract agreed:

(1) individually or collectively between the employers and the employees or their respective representatives; or

(2) with self-employed persons, in compliance with United Kingdom legislation; and which carries out activities directly arising therefrom.

...

*Internal model approval*

means:

- (1) ~~the approval granted to a firm by the PRA to use an internal model to calculate part (partial internal model) or all of its SCR;~~
- (2) ~~in relation to a UK Solvency II firm that is a member of a group, the approval granted to that firm by the PRA to use an internal model to calculate part (partial internal model) or all of its group SCR.~~

internal model change policy

means the policy for making minor and major changes to an internal model that is (or is to be) covered by a firm's internal model permission.

internal model permission

means:

- (1) the permission granted to a firm by the PRA pursuant to section 138BA of FSMA for the purpose of using an internal model to calculate part (partial internal model) or all of its SCR and making changes to that internal model; and
- (2) in relation to a UK Solvency II firm that is a member of a group, the permission granted to that firm by the PRA pursuant to section 138BA of FSMA for the purpose of using an internal model to calculate part (partial internal model) or all of its group SCR and making changes to that internal model.

internal model permission application

means an application by a firm for internal model permission.

internal model requirements

means Solvency Capital Requirement – Internal Models 10 to 16A.

internal model residual deviation

means a residual deviation, as determined by the PRA, in the risk profile of a UK Solvency II firm, or a group (as appropriate), from the assumptions underlying the SCR (or group SCR, as appropriate) in circumstances where the firm's SCR (or group SCR of the firm's group, as appropriate) is calculated using an internal model. For this purpose, assumptions include proposed assumptions in an internal model permission application.

...

intra-group transaction

- (1) means all transactions by which regulated entities within a financial conglomerate rely directly or indirectly on other undertakings within the same group or on any natural or legal person linked to the undertakings within that group by close links, for the fulfilment of an obligation, whether or not contractual, and whether or not for payment; or-
- (2) in the Reporting Part and in the Group Supervision Part means any transaction by which a Solvency II undertaking within a group relies directly or indirectly on any other undertaking within the same group or on any natural or legal person linked to an undertaking within that group by close links, for the fulfilment of an obligation, whether or not contractual, and whether or not for payment.

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...

line of business

means a line of business as set out in [Annex I of Commission Delegated Regulation (Solvency II) 2015/35].

...

long-term insurance and reinsurance obligations

means insurance and reinsurance obligations falling within lines of business 29 to 36.

...

major business unit

has the meaning given in Article 1(41) or (42) of the Solvency II Regulations, as appropriate means:

- (1) in relation to a firm, a defined segment of the firm that operates independently from other parts of the firm and has dedicated governance resources and procedures within the firm and which contains risks that are material in relation to the entire business of the firm; and
- (2) in relation to a group, a defined segment of the group that operates independently from other parts of the group and has dedicated governance resources and procedures within the group and which contains risks that are material in relation to the entire business of the group.

...

matching adjustment portfolio

means a relevant portfolio of insurance or reinsurance obligations and the relevant portfolio of assets.

...

MCR

means the minimum capital requirement (which is calibrated to the value-at-risk of a firm's basic own funds subject to a confidence level of 85% over a one-year period) calculated in accordance with the Minimum Capital Requirement Part of the PRA Rulebook.

...

method 1

means the method for calculating group solvency described in Group Supervision 11.1.

method 2

means the method for calculating group solvency described in Group Supervision 11.2.

...

model limitation adjustment

means, in respect of a firm or group where part or all of its SCR (or group SCR, as appropriate) is calculated using an internal model, a capital adjustment calibrated and applied in the internal model which contributes to the calculation of its SCR (or group SCR, as appropriate), and that is intended to ensure that it complies with Solvency Capital Requirement – General Provisions 3.3 and 3.4, whether directly or by application of Group Supervision 11.2.

...

national specific template

means a template which a firm is required to complete pursuant to Reporting 2.6 and 2.8.

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...

non-regulated undertaking

means any undertaking other than a regulated entity.

non-regulated undertaking carrying out financial activities

means a non-regulated undertaking which carries on one or more of the following:

- (1) any of the following activities:
- (a) taking deposits and other repayable funds;
  - (b) lending including, inter alia: consumer credit, credit agreements relating to immovable property, factoring, with or without recourse, financing of commercial transactions (including forfeiting);
  - (c) financial leasing;
  - (d) payment services as defined in regulation 2 of the Payment Services Regulations 2017/752;
  - (e) issuing and administering other means of payment (e.g. travellers' cheques and bankers' drafts) insofar as such activity is not covered by (d);
  - (f) guarantees and commitments;
  - (g) trading for own account or for account of customers in any of the following:
    - (i) money market instruments (cheques, bills, certificates of deposit, etc.);
    - (ii) foreign exchange;
    - (iii) financial futures and options;
    - (iv) exchange and interest-rate instruments; or
    - (v) transferable securities;
  - (h) participation in securities issues and the provision of services relating to such issues;
  - (i) advice to undertakings on capital structure, industrial strategy and related questions and advice as well as services relating to mergers and the purchase of undertakings;
  - (j) money broking;
  - (k) portfolio management and advice;
  - (l) safekeeping and administration of securities;
  - (m) credit reference services;
  - (n) safe custody services; and
  - (o) issuing electronic money; and
- (2) any of the services and activities referred to in Part 3 and Part 3A of Schedule 2 to the Regulated Activities Order, as amended from time to time, when referring to the financial instruments set out in Part 1 of Schedule 2 to the Regulated Activities Order,  
where those activities constitute a significant part of its overall activity.

...

notional general insurance MCR

means the notional minimum capital requirement calculated in accordance with Composites 4.2(2) and 4A.

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notional general insurance SCR

means the notional solvency capital requirement for *general insurance business*, calculated in accordance with Composites 4C.3.

~~notional life MCR~~

~~means the notional minimum capital requirement calculated under Composites 4.2(1).~~

~~notional life SCR~~

~~means the notional solvency capital requirement for *long-term insurance business*, calculated in accordance with the *Solvency II Regulations*.~~

notional long-term insurance MCR

means the notional minimum capital requirement for *long-term insurance business* calculated in accordance with Composites 4.2(1) and 4B.

notional long-term insurance SCR

means the notional solvency capital requirement for *long-term insurance business*, calculated in accordance with Composites 4C.4.

~~notional non-life MCR~~

~~means the notional minimum capital requirement calculated under Composites 4.2(2).~~

~~notional non-life SCR~~

~~means the notional solvency capital requirement for *general insurance business*, calculated in accordance with the *Solvency II Regulations*.~~

...

partial internal model

means an *internal model* that is:

...

- (2) applied to the whole of a *firm's insurance business*, or only to one or more of its *major business units*.

[Note: Art. 112(2) of the *Solvency II Directive*]

...

phasing-in plan

means the phasing-in plan required to be submitted by a *firm* to the *PRA*:

- (1) in relation to a *firm* with approval to use the *risk-free interest rate transitional measure*, under Transitional Measures 12.1; and
- (2) in relation to a *firm* with *TMP Permission*, under Transitional Measure on Technical Provisions 7.1.

...

policyholder

either:



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- (1) means, in respect of a ~~contract of insurance~~contract of insurance where the ~~insurance undertaking~~insurance undertaking is a UK Solvency II firm or a third country branch undertaking, a policyholder which includes a ~~beneficiary~~beneficiary; or

...

regulated entity

means:

- (1) a credit institution;  
(2) a Solvency II undertaking, a third country insurance undertaking, a third country reinsurance undertaking;  
(3) an investment firm;  
(4) an asset management company; or  
(5) an alternative investment fund manager;

whether or not it is incorporated in, or has its head office in, the UK.

...

relevant portfolio of assets

means, in respect of a relevant portfolio of insurance or reinsurance obligations, the portfolio of assets, referred to in regulation 4(3) and (5) of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 which is assigned to cover the best estimate of those insurance or reinsurance obligations.

...

significant branch

means a branch for which the annual gross written premium of the branch exceeds 5% of the annual gross written premium of the group, measured with reference to the last available consolidated financial statements of the group.

...

significant deviation from relevant assumptions

means a significant deviation from the assumptions underlying the matching adjustment, the volatility adjustment, the risk-free interest rate transitional measure or the ~~transitional deduction~~TMTF.

...

Solvency II undertaking

means:

- (1) a UK Solvency II firm; or  
(2) a Gibraltarian insurance undertaking.

...

special purpose vehicle

means any undertaking, whether incorporated or not, other than an existing UK Solvency II firm, which:

- (1) assumes risks from UK Solvency II firms (or third country insurance undertakings or third country reinsurance undertakings); and  
(2) fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanism where the repayment rights of the providers of such debt or financing mechanism are subordinated to the undertaking's obligations to the UK

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Solvency II firm (or third country insurance undertaking or third country reinsurance undertaking) in respect of the risks referred to in (1).

...

*third country insurance undertaking*

means an *undertaking* that has its head office outside the *UK* and ~~that would require authorisation as an *insurance undertaking* in accordance with provisions implementing Article 14 of the *Solvency II Directive* if its head office was situated in the *UK*.~~ if its head office were situated in the *UK* would:

- (1) need *Part 4A permission*; and
- (2) satisfy the conditions set out in *Insurance General Application 2.2*.

[Note: Art. 13(3) of the *Solvency II Directive*]

...

*third country reinsurance undertaking*

means an *undertaking* that pursues only the business of *reinsurance* and has its head office outside the *UK* and ~~that would require authorisation as a *reinsurance undertaking* in accordance with provisions implementing Article 14 of the *Solvency II Directive* if its head office were situated in the *UK*.~~ if its head office were situated in the *UK* would:

- (1) need *Part 4A permission*; and
- (2) satisfy the conditions set out in *Insurance General Application 2.2*.

[Note: Art. 13(6) of the *Solvency II Directive*]

...

*TMTP*

means a transitional deduction from a *firm's technical provisions*.

*TMTP Permission*

means the permission to apply *TMTP* granted to a *firm* by the *PRA* pursuant to section 138BA of *FSMA*.

...

~~*transitional deduction*~~

~~means the deduction from *technical provisions* applied in accordance with *Transitional Measures 11.1*.~~

...

*UCITS management company*

has the same meaning as given to 'management company' in section 237 of *FSMA*.

...

*UK holding company*

means an *insurance holding company* or *mixed financial holding company* that:

- (1) is incorporated in the *UK*; or
- (2) has a place of business in the *UK*.

...

**Annex B**

**Amendments to the Insurance General Application Part**

In this Annex new text is underlined and deleted text is struck through.

**Part**

# **INSURANCE GENERAL APPLICATION**

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**Chapter content**

...

4. EURO INTERPRETATION [DELETED]

**Near-final**

## 1 APPLICATION AND DEFINITIONS

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...

1.2 In this Part, the following definitions shall apply:

...

### *requirement*

means a requirement or limitation included in a *firm's Part 4A permission* under section 55F(4) of *FSMA* (Giving permission: the PRA), section 55L(3) of *FSMA* (Imposition of requirements by the FCA), section 55M(3) of *FSMA* (Imposition of Requirements by the PRA) or section 55O of *FSMA* (Imposition of requirements on acquisition of control).

...

## 2 UK SOLVENCY II FIRM

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...

2.3 Subject to 2.5, a *firm* of the kind mentioned in 2.2(5) or 2.2(6) is excluded if it fulfils all of the following conditions:

- (1) the *firm's* annual gross written premium income does not exceed ~~5,000,000 euro~~ £25,000,000;
- (2) the total of the *firm's technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*, as referred to in Technical Provisions 2.1 to 2.3 does not exceed ~~25,000,000 euro~~ £50,000,000;
- (3) where the *firm* belongs to a *group*, the total of the *technical provisions* of the *group* defined as gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs* does not exceed ~~25,000,000 euro~~ £50,000,000;
- (4) the business of the *firm* does not include insurance or *reinsurance* activities covering liability, credit and suretyship insurance risks, unless they constitute *ancillary risks*; and
- (5) the business of the *firm* does not include *reinsurance* operations:
  - (a) exceeding:
    - (i) ~~£2,500,000~~ 500,000 euro of its gross written premium income; or
    - (ii) ~~£5,000,000~~ 2,500,000 euro of its *technical provisions* gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*; or
  - (b) with more than 10% of its gross written premium income or more than 10% of its *technical provisions* gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*.

[Note: Art. 4(1) of the *Solvency II Directive*]

...

## 4 EURO INTERPRETATION ~~[DELETED]~~

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4.1 ~~Where a provision in the *Solvency II Firms Sector* of the *PRA Rulebook* makes reference to amounts in euro, the exchange rate from the euro to the pound sterling for each year with effect from 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all of the EU member states were published in the Official Journal of the European Union. [Deleted]~~

[Note: Art. 299 of the *Solvency II Directive*]

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4.2 ~~Where a provision in the *Solvency II Firms* Sector of the *PRA* Rulebook makes reference to amounts in euro a *firm* must interpret those amounts as being succeeded by any such amounts published in the Official Journal of the European Union reflecting the percentage change in the Harmonised Indices of Consumer Prices (comprising all EU member states, as published by Eurostat) starting from 31 December 2015 until the date of revision and rounded up to a multiple of 100,000 euro, provided that where the percentage change since the previous revision is less than 5% the amounts will not be revised.~~[Deleted]

[Note: Art. 300 of the *Solvency II Directive*]

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Annex C

Amendments to the Minimum Capital Requirement Part

In this Annex new text is underlined and deleted text is struck through.

Part

## MINIMUM CAPITAL REQUIREMENT

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Chapter content

...

3. CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT

3A. CALCULATION OF THE LINEAR MINIMUM CAPITAL REQUIREMENT

3B. LINEAR FORMULA COMPONENT FOR GENERAL INSURANCE AND REINSURANCE OBLIGATIONS

3C. LINEAR FORMULA COMPONENT FOR LONG-TERM INSURANCE AND REINSURANCE OBLIGATIONS

...

5. LLOYD'S

6. MINIMUM CAPITAL REQUIREMENT RISK FACTORS FOR GENERAL INSURANCE AND HEALTH INSURANCE AND REINSURANCE OBLIGATIONS

Near final

## 1 APPLICATION AND DEFINITIONS

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...

1.2 In this Part, the following definitions shall apply;

*captive insurer*

means a *UK Solvency II firm* owned by:

- (1) a financial *undertaking* other than a *UK Solvency II firm*; ~~or~~
- (2) a *group* of *UK Solvency II firms*; or
- (3) a non-financial *undertaking*;

the purpose of which is to provide insurance cover exclusively for the risks of the ~~undertaking~~*undertaking* or ~~undertakings~~*undertakings* to which it belongs, or of an *undertaking*, or *undertakings*, of the *group* of which that *UK Solvency II firm* is a member.

[Note: Art. 13(2) of the *Solvency II Directive*]

...

*long-term insurance obligations*

means insurance obligations falling within *lines of business* 29 to 34.

...

## 3 CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT

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3.1 The function used to calculate the *firm's MCR* must be calibrated to the value-at-risk of its *basic own funds* subject to a confidence level of 85% over a one-year period. ~~[Deleted]~~

[Note: Art. 129(1)(c) of the *Solvency II Directive*]

3.1A The *MCR* must be equal to the following:

$MCR = \max(MCR_{\text{combined}}, AMCR)$

where:

- (1)  $MCR_{\text{combined}}$  denotes the combined minimum capital requirement referred to in 3.1B; and
- (2)  $AMCR$  denotes the absolute floor referred to in 3.2.

3.1B The combined minimum capital requirement must be equal to the following:

$MCR_{\text{combined}} = \min(\max(MCR_{\text{linear}}, 0.25 \times SCR), 0.45 \times SCR)$

where:

- (1)  $MCR_{\text{linear}}$  denotes the linear minimum capital requirement, calculated in accordance with 3A to 3C; and
- (2)  $SCR$  denotes the *SCR* calculated in accordance with *SCR Rules*.

3.2 The *MCR* must have an absolute floor of:

- (1) ~~£2,400,000~~ ~~2,500,000 euro~~ for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of general insurance*, except in the case where all or some of the *general insurance business classes* 10 to 15 are covered, in which case it must be no less than ~~£3,500,000~~ ~~3,700,000 euro~~;

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- (2) ~~£3,500,000~~~~3,700,000~~ ~~euro~~ for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of long-term insurance*;
- (3) ~~£3,500,000~~~~3,600,000~~ ~~euro~~ for *pure reinsurers*, except in the case of *captive reinsurers* that are *pure reinsurers*, in which case the *MCR* must be no less than ~~£1,200,000~~~~1,200,000~~ ~~euro~~; ~~or~~
- (4) Unless (5) applies, the sum of the amounts set out in (1) and (2) for ~~firms~~ *composite firms* other than *pure reinsurers* which as of 15 March 1979 carried on both *long-term insurance business* and *general insurance business*; or
- (5) For *composite firms*, other than *pure reinsurers*, whose *Part 4A permission* in relation to *general insurance business* is limited to *general insurance business class 1 (accident)* or *class 2 (sickness)* and where the gross written premiums for either:
- (a) *general insurance business*; or
- (b) *long-term insurance business*,
- do not exceed 10% of total gross written premiums of the *firm* as a whole, the amount set out in (2).

[Note: Art. 129(1)(d) of the *Solvency II Directive*]

...

### **3A CALCULATION OF THE LINEAR MINIMUM CAPITAL REQUIREMENT**

3A.1 The linear minimum capital requirement referred to in 3.1B must be equal to the following:

$$MCR_{\text{linear}} = MCR_{(\text{linear,gi})} + MCR_{(\text{linear,l})}$$

where:

- (1)  $MCR_{(\text{linear,gi})}$  denotes the linear formula component for *general insurance and reinsurance obligations*; and
- (2)  $MCR_{(\text{linear,l})}$  denotes the linear formula component for *long-term insurance and reinsurance obligations*.

### **3B LINEAR FORMULA COMPONENT FOR GENERAL INSURANCE AND REINSURANCE OBLIGATIONS**

3B.1 The linear formula component for *general insurance and reinsurance obligations* referred to in 3A.1 must be equal to the following:

$$MCR_{\text{linear,gi}} = \sum_s (\alpha_s \times TP_{(gi,s)}) + (\beta_s \times P_s)$$

where:

- (1) the sum covers all segments set out in 6.1;
- (2)  $TP_{(gi,s)}$  denotes the *technical provisions* without a *risk margin* for *general insurance and reinsurance obligations* in the segment  $s$  after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero;
- (3)  $P_s$  denotes the *premiums* written for *general insurance and reinsurance obligations* in the segment  $s$  during the last 12 *months*, after deduction of *premiums* for *reinsurance contracts*, with a floor equal to zero; and
- (4) the factors  $\alpha_s$  and  $\beta_s$  are set out in 6.1.



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3B.2 The amounts recoverable from *reinsurance contracts* and *special purpose vehicles* referred to in 3B.1(2) must not include any of the following amounts:

- (1) amounts recoverable from *reinsurance contracts* or *special purpose vehicles* that cannot be taken into account in accordance with [Article 41(3) and (5) of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) amounts recoverable from *reinsurance contracts* or *special purpose vehicles*, that do not comply with [Articles 209, 210, 211 and 213 of the Commission Delegated Regulation (Solvency II) 2015/35] or with Solvency Capital Requirement – Internal Models 11.10 to 11.12.

3B.3 In the calculation of *premiums* written after deduction of *premiums* for *reinsurance contracts* referred to in 3B.1(3), the following *premiums* for *reinsurance contracts* must not be deducted:

- (1) *premiums* in relation to non-insurance events or settled insurance claims that are not accounted for in the cashflows referred to in [Article 41(3) of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) *premiums* for *reinsurance contracts* that do not comply with [Articles 209, 210, 211 and 213 of the Commission Delegated Regulation (Solvency II) 2015/35], or with Solvency Capital Requirement – Internal Models 11.10 to 11.12.

### **3C LINEAR FORMULA COMPONENT FOR LONG-TERM INSURANCE AND REINSURANCE OBLIGATIONS**

3C.1 The linear formula component for *long-term insurance and reinsurance obligations* referred to in 3A.1 must be equal to the following:

$$\text{MCR}_{\text{linear},l} = 0.037 \times \text{TP}_{(l,1)} - 0.052 \times \text{TP}_{(l,2)} + 0.007 \times \text{TP}_{(l,3)} + 0.021 \times \text{TP}_{(l,4)} + 0.0007 \times \text{CAR}$$

where:

- (1)  $\text{TP}_{(l,1)}$  denotes the *technical provisions* without a *risk margin* in relation to *guaranteed benefits* provided for *long-term insurance obligations* with profit participation, after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero, and *technical provisions* without a *risk margin* for *reinsurance obligations* where the underlying *long-term insurance obligations* include profit participation, after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero;
- (2)  $\text{TP}_{(l,2)}$  denotes the *technical provisions* without a *risk margin* in relation to *future discretionary benefits* for *long-term insurance obligations* with profit participation, after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero;
- (3)  $\text{TP}_{(l,3)}$  denotes the *technical provisions* without a *risk margin* for *linked long-term liabilities*, after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero;
- (4)  $\text{TP}_{(l,4)}$  denotes the *technical provisions* without a *risk margin* for *long-term insurance and reinsurance obligations* other than those mentioned in (1) to (3), after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, with a floor equal to zero; and
- (5) CAR denotes the total capital at risk, being the sum, in relation to each *contract of insurance* that gives rise to *long-term insurance and reinsurance obligations*, of the capital at risk of the contracts, where the capital at risk of a contract means the higher of zero and the difference between the following two amounts:

**These are near-final rules, published with PS2/24**

- (a) the sum of all of the following:
- (i) the amount that the *firm* would currently pay in the event of the death or disability of the *persons* insured under the *contract of insurance* after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*; and
  - (ii) the expected present value of amounts not covered in (i) that the *firm* would pay in the future in the event of the immediate death or disability of the *persons* insured under the *contract of insurance* after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*; and
- (b) the *best estimate* of the corresponding obligations after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*.

**3C.2** The amounts recoverable from *reinsurance contracts* and *special purpose vehicles* referred to in 3C.1(1) to (4), must not include any of the following:

- (1) amounts recoverable from *reinsurance contracts* or *special purpose vehicles* that cannot be taken into account in accordance with [Article 41(3) and (5) of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) amounts recoverable from *reinsurance contracts* or *special purpose vehicles* that do not comply with [Articles 209 to 215 of the Commission Delegated Regulation (Solvency II) 2015/35] or with Solvency Capital Requirement – Internal Models 11.10 to 11.12.

...

**6 MINIMUM CAPITAL REQUIREMENT RISK FACTORS FOR GENERAL INSURANCE AND HEALTH INSURANCE AND REINSURANCE OBLIGATIONS**

**6.1**

	<u>Segment</u>	<u>Lines of business that the segment consists of</u>	<u>Factor for technical provisions for segment s (<math>\alpha_s</math>)</u>	<u>Factor for premiums written for segment s (<math>\beta_s</math>)</u>
1	<u>Medical expense insurance</u>	<u>1 and 13</u>	<u>4.7%</u>	<u>4.7%</u>
2	<u>Income protection insurance</u>	<u>2 and 14</u>	<u>13.1%</u>	<u>8.5%</u>
3	<u>Workers' compensation insurance</u>	<u>3 and 15</u>	<u>10.7%</u>	<u>7.5%</u>
4	<u>Motor vehicle liability insurance and proportional <i>reinsurance</i></u>	<u>4 and 16</u>	<u>8.5%</u>	<u>9.4%</u>
5	<u>Other motor insurance and proportional <i>reinsurance</i></u>	<u>5 and 17</u>	<u>7.5%</u>	<u>7.5%</u>
6	<u>Marine, aviation and transport insurance and proportional <i>reinsurance</i></u>	<u>6 and 18</u>	<u>10.3%</u>	<u>14%</u>
7	<u>Fire and other damage to property insurance and proportional <i>reinsurance</i></u>	<u>7 and 19</u>	<u>9.4%</u>	<u>7.5%</u>
8	<u>General liability insurance and</u>	<u>8 and 20</u>	<u>10.3%</u>	<u>13.1%</u>

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	<u>proportional reinsurance</u>			
<u>9</u>	<u>Credit and suretyship insurance and proportional reinsurance</u>	<u>9 and 21</u>	<u>17.7%</u>	<u>11.3%</u>
<u>10</u>	<u>Legal expenses insurance and proportional reinsurance</u>	<u>10 and 22</u>	<u>11.3%</u>	<u>6.6%</u>
<u>11</u>	<u>Assistance and its proportional reinsurance</u>	<u>11 and 23</u>	<u>18.6%</u>	<u>8.5%</u>
<u>12</u>	<u>Miscellaneous financial loss insurance and proportional reinsurance</u>	<u>12 and 24</u>	<u>18.6%</u>	<u>12.2%</u>
<u>13</u>	<u>Non-proportional casualty reinsurance</u>	<u>26</u>	<u>18.6%</u>	<u>15.9%</u>
<u>14</u>	<u>Non-proportional marine, aviation and transport reinsurance</u>	<u>27</u>	<u>18.6%</u>	<u>15.9%</u>
<u>15</u>	<u>Non-proportional property reinsurance</u>	<u>28</u>	<u>18.6%</u>	<u>15.9%</u>
<u>16</u>	<u>Non-proportional health reinsurance</u>	<u>25</u>	<u>18.6%</u>	<u>15.9%</u>

Near-final

## Annex D

### Amendments to the Composites Part

In this Annex new text is underlined and deleted text is struck through.

Part

# COMPOSITES

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## Chapter content

...

4. MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT
  - 4A. NOTIONAL GENERAL INSURANCE MINIMUM CAPITAL REQUIREMENT
  - 4B. NOTIONAL LONG-TERM INSURANCE MINIMUM CAPITAL REQUIREMENT
  - 4C. NOTIONAL SOLVENCY CAPITAL REQUIREMENT
5. LINKS BETWEEN GENERAL INSURERS AND LONG-TERM INSURERS
6. LLOYD'S

Near-final

...

#### 4 MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT

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...

4.2 Without prejudice to the *SCR Rules* and the Minimum Capital Requirement Part of the *PRA Handbook*, the *firm* must calculate a notional minimum capital requirement on the basis of the accounts referred to in 3.2:

- (1) a notional long-term insurance MCR with respect to its *long-term insurance business*, calculated as if the *firm* carried on *long-term insurance business* only; and
- (2) a notional general insurance MCR with respect to its *general insurance business*, calculated as if the *firm* carried on *general insurance business* only.

[Note: Art. 74(2) of the *Solvency II Directive*]

4.3 The *firm* must cover:

- (1) its ~~notional life MCR~~ notional long-term insurance MCR with *eligible own funds* attributable to its *long-term insurance business*, as identified on the basis of the accounts referred to in 3.2; and
- (2) its ~~notional non-life MCR~~ notional general insurance MCR with *eligible own funds* attributable to its *general insurance business*, as identified on the basis of the accounts referred to in 3.2.

[Note: Art. 74(3) of the *Solvency II Directive*]

4.4 For the purposes of 4.3, the *firm* must not cover:

- (1) its ~~notional life MCR~~ notional long-term insurance MCR with *eligible own funds* attributable to its *general insurance business*; and
- (2) its ~~notional non-life MCR~~ notional general insurance MCR with *eligible own funds* attributable to its *long-term insurance business*.

[Note: Art. 74(3) of the *Solvency II Directive*]

4.5 The *firm* must prepare a statement on the basis of the accounts referred to in 3.2 identifying the *eligible own funds* covering the ~~notional life MCR~~ notional long-term insurance MCR and the ~~notional non-life MCR~~ notional general insurance MCR, respectively.

[Note: Art. 74(6) of the *Solvency II Directive*]

4.6 Provided the *firm* satisfies the requirements in 4.3 and 4.4, and subject to the requirement in 4.7, a *firm* may use:

- (1) *eligible own funds* attributable to its *general insurance business* that are in excess of its ~~notional non-life MCR~~ notional general insurance MCR; and
- (2) *eligible own funds* attributable to its *long-term insurance business* that are in excess of its ~~notional life MCR~~ notional long-term insurance MCR;

to cover part or all of the difference between the *firm's SCR* and the sum of its ~~notional non-life MCR~~ notional general insurance MCR and ~~notional life MCR~~ notional long-term insurance MCR.

[Note: Art. 74(4) of the *Solvency II Directive*]

4.7 For the purposes of 4.6, a *firm* must notify the *PRA* before using:

## These are near-final rules, published with PS2/24

- (1) *eligible own funds* referred to in 4.6(1) to cover the portion of the difference referred to in 4.6 that relates to the difference between the ~~notional life SCR~~notional long-term insurance SCR and the ~~notional life MCR~~notional long-term insurance MCR; or
- (2) *eligible own funds* referred to in 4.6(2) to cover the portion of the difference referred to in 4.6 that relates to the difference between the ~~notional non-life SCR~~notional general insurance SCR and the ~~notional non-life MCR~~notional general insurance MCR.

[Note: Art. 74(4) of the *Solvency II Directive*]

4.8 If a *composite firm* is in breach of either 4.3(1) or 4.3(2), Undertakings In Difficulty 4.1 applies to the activity in respect of which the breach has occurred, as if the words “MCR” in Undertakings In Difficulty 4.1 were substituted with the words “~~notional life MCR~~”notional long-term insurance MCR or “~~notional non-life MCR~~”notional general insurance MCR, as applicable, regardless of whether any breach has occurred in respect of the other activity.

[Note: Art. 74(7) of the *Solvency II Directive*]

### **4A NOTIONAL GENERAL INSURANCE MINIMUM CAPITAL REQUIREMENT**

---

4A.1 This Chapter:

- (1) applies to a *composite firm*, other than a *pure reinsurer*, and
- (2) does not apply to *managing agents*.

4A.2 The *notional general insurance MCR* must be equal to the following:

$$\text{NMCR}_{\text{gi}} = \max(\text{NMCR}_{(\text{combined,gi})}, \text{AMCR}_{\text{gi}})$$

where:

- (1) NMCR<sub>(combined,gi)</sub> denotes the notional combined general insurance minimum capital requirement prescribed in 4A.3; and
- (2) AMCR<sub>gi</sub> denotes:
  - (a) the absolute floor prescribed in Minimum Capital Requirement 3.2(1); or
  - (b) where Minimum Capital Requirement 3.2(5) applies, the sum of the absolute floor prescribed in Minimum Capital Requirement 3.2(2).

4A.3 The notional combined general insurance minimum capital requirement must be equal to the following:

$$\text{NMCR}_{(\text{combined,gi})} = \min(\max(\text{NMCR}_{(\text{linear,gi})}, 0.25 \times (\text{NSCR}_{\text{gi}} + \text{Addong}_{\text{gi}})), 0.45 \times (\text{NSCR}_{\text{gi}} + \text{Addong}_{\text{gi}}))$$

where:

- (1) NMCR<sub>(linear,gi)</sub> denotes the notional linear minimum capital requirement for *general insurance business* prescribed in 4A.4;
- (2) NSCR<sub>gi</sub> denotes the *notional general insurance SCR*; and
- (3) Addong<sub>gi</sub> denotes the part of any *capital add-on* imposed by the *PRA*, which has been apportioned by *PRA* to the *general insurance business* of the *firm*.

4A.4 The notional linear minimum capital requirement for *general insurance business* must be equal to the following:

$$\text{NMCR}_{(\text{linear,gi})} = \text{MCR}_{(\text{gi,gi})} + \text{MCR}_{(\text{l,gi})}$$

where:

- (1) MCR<sub>(gi,gi)</sub> denotes the linear formula component for *general insurance and reinsurance obligations* relating to *general insurance business* calculated in accordance with 4A.5; and

## These are near-final rules, published with PS2/24

(2)  $MCR_{(l,qi)}$  denotes the linear formula component for *long-term insurance and reinsurance obligations* relating to *general insurance business* calculated in accordance with 4A.5.

4A.5  $MCR_{(qi,qi)}$  and  $MCR_{(l,qi)}$  must be calculated in the same way as  $MCR_{(linear,qi)}$  and  $MCR_{(linear,l)}$  referred to in Minimum Capital Requirement 3B and 3C respectively, but the *technical provisions* or premiums written used in the calculation must only relate to the *firm's general insurance and reinsurance obligations*.

### 4B NOTIONAL LONG-TERM MINIMUM CAPITAL REQUIREMENT

---

4B.1 This Chapter:

- (1) applies to a *composite firm*, other than a *pure reinsurer*; and
- (2) does not apply to *managing agents*.

4B.2 The *notional long-term insurance MCR* must be equal to the following:

$$NMCR_i = \max(NMCR_{(combined,i)}, AMCR_i)$$

where:

- (1)  $NMCR_{(combined,i)}$  denotes the notional combined long-term insurance minimum capital requirement prescribed in 4B.3; and
- (2)  $AMCR_i$  denotes the absolute floor prescribed in Minimum Capital Requirement 3.2(2).

4B.3 The notional combined long-term insurance minimum capital requirement must be equal to the following:

$$NMCR_{(combined,i)} = \min(\max(NMCR_{(linear,i)}, 0.25 \times (NSCR_i + Addon_i)), 0.45 \times (NSCR_i + Addon_i))$$

where:

- (1)  $NMCR_{(linear,i)}$  denotes the notional linear minimum capital requirement for *long-term insurance business* prescribed in 4B.4;
- (2)  $NSCR_i$  denotes the *notional long-term insurance SCR*; and
- (3)  $Addon_i$  denotes the part of any *capital add-on* imposed by the *PRA*, which has been apportioned by *PRA* to the *long-term insurance business* of the *firm*.

4B.4 The notional linear minimum capital requirement for *long-term insurance business* must be equal to the following:

$$NMCR_{(linear,i)} = MCR_{(qi,i)} + MCR_{(l,i)}$$

where:

- (1)  $MCR_{(qi,i)}$  denotes the linear formula component for *general insurance and reinsurance obligations* relating to *long-term insurance business* calculated in accordance with 4B.5; and
- (2)  $MCR_{(l,i)}$  denotes the linear formula component for *long-term insurance and reinsurance obligations* relating to *long-term insurance business* calculated in accordance with 4B.5.

4B.5  $MCR_{(qi,i)}$  and  $MCR_{(l,i)}$  must be calculated in the same way as  $MCR_{(linear,qi)}$  and  $MCR_{(linear,l)}$  referred to in Minimum Capital Requirement 3B and 3C respectively, but the *technical provisions* or premiums written used in the calculation must only relate to *long-term insurance and reinsurance obligations*.

### 4C NOTIONAL SOLVENCY CAPITAL REQUIREMENT

---

4C.1 This Chapter:

**These are near-final rules, published with PS2/24**

- (1) applies to a composite firm, other than a pure reinsurer, and
- (2) does not apply to managing agents.

4C.2 The firm must calculate a notional general insurance SCR and a notional long-term insurance SCR.

4C.3 The notional general insurance SCR must be equal to the following:

$$\text{NSCR}_{\text{gi}} = \frac{\text{NMCR}_{(\text{linear},\text{l})}}{\text{NMCR}_{(\text{linear},\text{gi})} + \text{NMCR}_{(\text{linear},\text{l})}} \times \text{SCR}$$

where:

- (1) SCR denotes the firm's SCR, which must for the purposes of this Chapter exclude any capital add-on;
- (2) NMCR<sub>(linear,gi)</sub> denotes the notional linear general insurance minimum capital requirement for general insurance business prescribed in 4A.4; and
- (3) NMCR<sub>(linear,l)</sub> denotes the notional linear minimum capital requirement for long-term insurance business prescribed in 4B.4.

4C.4 The notional long-term insurance SCR must be equal to the following:

$$\text{NSCR}_{\text{l}} = \frac{\text{NMCR}_{(\text{linear},\text{l})}}{\text{NMCR}_{(\text{linear},\text{gi})} + \text{NMCR}_{(\text{linear},\text{l})}} \times \text{SCR}$$

where:

- (1) SCR denotes the SCR, excluding any capital add-on;
- (2) NMCR<sub>(linear,gi)</sub> denotes the notional linear general insurance minimum capital requirement for general insurance business prescribed in 4A.4; and
- (3) NMCR<sub>(linear,l)</sub> denotes the notional linear minimum capital requirement for long-term insurance business prescribed in 4B.4.

...

## 6 LLOYD'S

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...

6.2 *A managing agent must not permit both general insurance business and long-term insurance business to be carried on together through any syndicate managed by it, except where:*

- (1) *the long-term insurance business to be carried on by that syndicate is or is to be restricted to reinsurance; or*
- (2) *the general insurance business to be carried on by that syndicate is or is to be restricted to effect contracts of insurance or carry out contracts of insurance in general insurance business class class 1 (accident) or class class 2 (sickness).*

[Note: Art. 73(2) of the Solvency II Directive]



Annex E

Amendments to the Solvency Capital Requirement – General Provisions Part

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Part

## SOLVENCY CAPITAL REQUIREMENT – GENERAL PROVISIONS

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Chapter content

...

6. REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS: LLOYD'S

...

Near-final

...

### 3 GENERAL PROVISIONS FOR THE CALCULATION OF THE SCR

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- 3.1 A firm must calculate its SCR either in accordance with the *standard formula* or using an *internal model* for which ~~internal model approval~~ internal model permission has been granted.

[Note: Art. 100 of the *Solvency II Directive*]

...

### 5 CAPITAL ADD-ON

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...

- 5.1A A firm must be able to, upon request by the PRA, submit a progress report to the PRA setting out the measures taken, and the progress made, to remedy the deficiencies that led to the imposition of a *capital add-on* arising as a result of an *internal model significant risk profile deviation* or a *significant system of governance deviation*.

...

### 6 REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS: LLOYD'S

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...

- 6.5 Where the Society uses an ~~approved internal model~~ for which internal model permission has been granted, the Society must also ensure that *eligible own funds* are held at Lloyd's covering, for at least 99.5% of the scenarios taken into account in the *internal model* for the purposes of meeting Solvency Capital Requirement - Internal Models 12.2, any diminution in *own funds* at Lloyd's arising from the impact of those scenarios.
- 6.6 Where an ~~approved internal model~~ for which internal model permission has been granted is used by the Society to calculate the SCR, for the purpose of meeting the requirement set out in 6.2, the Society may take account of *own funds* attributable to a *member* only to the extent of the diminution, if any, to those *own funds* resulting from the application of risk scenarios taken into account in the *internal model*.

...

Annex F

Amendments to the Solvency Capital Requirement – Internal Models Part

In this Annex new text is underlined and deleted text is struck through.

Part

## **SOLVENCY CAPITAL REQUIREMENT – INTERNAL MODELS**

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### Chapter content

1. APPLICATION AND DEFINITIONS
2. ~~APPROVAL OF~~PERMISSION TO USE FULL AND PARTIAL INTERNAL MODELS
3. APPLICATIONS FOR ~~APPROVAL OF~~PERMISSION TO USE FULL AND PARTIAL INTERNAL MODELS
4. APPLICATIONS FOR ~~APPROVAL OF~~PERMISSION TO USE PARTIAL INTERNAL MODELS
5. TRANSITIONAL PLAN TO EXTEND THE SCOPE OF THE MODEL
- ~~5A. TRANSITIONAL PLAN TO REDUCE THE SCOPE OF THE MODEL~~
- ~~5B. INTERNAL MODEL SAFEGUARDS~~
- ...
13. PROFIT AND LOSS ATTRIBUTION ~~[DELETED]~~
- ~~13A. ANALYSIS OF CHANGE~~
- ...
16. EXTERNAL MODELS AND DATA
- ~~16A. INTEGRATION OF PARTIAL INTERNAL MODELS~~
- ~~16B. INTERGRATION TECHNIQUES FOR PARTIAL INTERNAL MODELS - GENERAL PROVISIONS~~
- ~~16C. PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 1~~
- ~~16D. PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 2~~
- ~~16E. PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 3~~
- ~~16F. PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 4~~
- ~~16G. PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 5~~
17. LLOYD'S

## 1 APPLICATION AND DEFINITIONS

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...

1.2 In this Part, the following definitions shall apply:

coverage

means the risks that are reflected in the probability distribution forecast generated by the internal model.

internal model approval application

means an application by a firm for internal model approval.

internal model change policy

means a firm's policy for making minor and major changes to its internal model.

internal model requirements

means the requirements set out in Solvency Capital Requirement – Internal Models 10 to 15.

internal model safeguard

means a limitation or requirement imposed by the PRA on a firm, whether in its internal model permission, under section 55M FSMA or otherwise, which either or both:

- (1) to the extent that a residual model limitation relates to Solvency Capital Requirement – General Provisions 3.3 to 3.4, is intended to ensure compliance of the internal model with those provisions; or
- (2) to the extent that a residual model limitation relates to the internal model requirements, is intended to mitigate the effect of that residual model limitation.

residual model limitation

means, in relation to an internal model for which a firm has, or in respect of which the firm is applying for, an internal model permission, an aspect of that internal model that prevents the firm from demonstrating that that internal model meets Solvency Capital Requirement - General Provisions 3.3 and 3.4 and all internal model requirements in all the circumstances in which it is, or is intended, to be used.

scope

means, in respect of an internal model for which the firm has (or is applying for) an internal model permission, the risks covered (or to be covered) by that internal model.

unit of the partial internal model

means a component of the partial internal model that is separately calculated and not aggregated within the partial internal model.

## 2 APPROVAL OF PERMISSION TO USE FULL AND PARTIAL INTERNAL MODELS

---

2.1 A firm may calculate its SCR using an internal model that is either a full internal model or a partial internal model only:

- (1) if it has been granted ~~internal model approval~~ internal model permission in respect of ~~that its~~ its internal model; and
- (2) to the extent of its ~~internal model approval~~ internal model permission.

## These are near-final rules, published with PS2/24

- 2.2 A firm that has been granted ~~internal model approval~~ internal model permission must calculate its SCR using the *internal model* for which ~~internal model approval~~ internal model permission has been granted.

[Note: Art. 112(1) and Art. 112(2) of the *Solvency II Directive*]

### 3 APPLICATIONS FOR APPROVAL OF PERMISSION TO USE FULL AND PARTIAL INTERNAL MODELS

---

- 3.1 A firm making an ~~internal model approval application~~ internal model permission application must either:

- (1) ~~submit, as a minimum, documentary evidence that demonstrates to the PRA's satisfaction that the *internal model* and, if the context requires, the *firm* satisfies the *internal model requirements*.~~ confirm to the PRA in writing and submit, as a minimum, documentary evidence that demonstrates that the *internal model* and, if the context requires, the *firm* satisfies Solvency Capital Requirement – General Provisions 3.3 to 3.4 and the *internal model requirements*; or
- (2) identify any of the requirements in Solvency Capital Requirement – General Provisions 3.3 to 3.4 and any *internal model requirements* that are not satisfied by the *internal model* or, if the context requires, the *firm*, explain to the PRA in writing why and in what way they are not satisfied and submit, as a minimum, documentary evidence demonstrating that the *internal model* or, if the context requires, the *firm* satisfies all other requirements in Solvency Capital Requirement – General Provisions 3.3 to 3.4 and *internal model requirements*.

[Note: Art. 112(3) of the *Solvency II Directive*]

- 3.2 A firm making an ~~internal model approval application~~ internal model permission application must demonstrate to the PRA's satisfaction that its systems for identifying, measuring, monitoring, managing and reporting risk are adequate.

[Note: Art. 112(5) of the *Solvency II Directive*]

- 3.3 When making an ~~internal model approval application~~ internal model permission application, a firm must submit its *internal model change policy* to the PRA for approval.

[Note: Art. 115 of the *Solvency II Directive*]

- 3.4 Upon request by the PRA, a firm with an ~~internal model approval~~ internal model permission must be able to, upon request by the PRA, provide the PRA with an estimate of the SCR determined in accordance with the *standard formula*.

[Note: Art. 112(7) of the *Solvency II Directive*]

### 4 APPLICATIONS FOR APPROVAL OF PERMISSION TO USE PARTIAL INTERNAL MODELS

---

- 4.1 Where an ~~internal model approval application~~ internal model permission application relates to the use of a *partial internal model*, the *internal model requirements* apply with any changes that are necessary to take account of the limited ~~scope of the application~~ scope of the *internal model*.

[Note: Art. 112(3) of the *Solvency II Directive*]

- 4.2 A firm making an ~~internal model approval application~~ internal model permission application to use a *partial internal model* must:

- (1) explain, and properly justify, the reason for the limited ~~scope of application~~ scope of the *internal model*;

...

## These are near-final rules, published with PS2/24

- (3) demonstrate that the design of its *partial internal model* is consistent with the principles in Solvency Capital Requirement - General Provisions 2 to 4 so as to allow the capital requirement generated by the *partial internal model* to be fully integrated into the *standard formula SCR*.

[Note: Art. 113(1) of the *Solvency II Directive*]

### **5 TRANSITIONAL PLAN TO EXTEND THE SCOPE OF THE MODEL**

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- 5.1 ~~Upon request by the PRA, a~~ A firm which has made an ~~*internal model approval application*~~ *internal model permission application* in respect of a *partial internal model* that only covers certain sub-modules of a specific risk module, or some of the business units of the *firm* with respect to a specific risk module, or parts of both, must be able to, upon request by the PRA, submit a realistic transitional plan to extend the ~~scope~~ scope of the proposed *partial internal model*.

[Note: Art. 113(2) of the *Solvency II Directive*]

- 5.2 The realistic transitional plan referred to in 5.1 must set out the manner in which the *firm* plans to extend the ~~scope~~ scope of the proposed *partial internal model* to other sub-modules or business units of the *firm*, in order to ensure that the *internal model* covers a predominant part of the *firm's insurance business* with respect to that specific risk module.

[Note: Art. 113(2) of the *Solvency II Directive*]

### **5A TRANSITIONAL PLAN TO REDUCE THE SCOPE OF THE MODEL**

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- 5A.1 Where a firm is failing or likely to fail to satisfy the requirements in 5B.1, 10.3, or Solvency Capital Requirement - General Provisions 5.1, the firm must be able to, upon request by the PRA, submit a realistic transitional plan to reduce the scope of its *internal model*, such that the *internal model* no longer covers:

- (1) the risks contained in one or more *major business units*; or
  - (2) certain sub-modules of a specific risk module, or some of the business units of the *firm* with respect to a specific risk module, or parts of both,
- in respect of which deficiencies arise.

### **5B INTERNAL MODEL SAFEGUARDS**

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- 5B.1 A firm must make all reasonable efforts to remedy the *residual model limitation* that led to the imposition of an *internal model safeguard*.
- 5B.2 A firm must be able to, upon request by the PRA, submit a progress report to the PRA setting out the measures taken, and the progress made, pursuant to 5B.1.

### **6 CHANGES TO AN INTERNAL MODEL OR INTERNAL MODEL CHANGE POLICY**

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- 6.1 A firm with ~~*internal model approval*~~ *internal model permission* must not change its *internal model* otherwise than in accordance with the *firm's internal model change policy* as approved by the PRA that is covered by the *firm's internal model permission*.

[Note: Art. 115 of the *Solvency II Directive*]

- 6.2 A firm's *internal model change policy* must include a specification of minor and major changes to the *internal model* and, to the extent a firm applies *model limitation adjustments* within the *internal model* for which it has *internal model permission*, an explanation of governance arrangements for their application, including where they are specified as minor and major changes and the reasons they are specified as such.

[Note: Art. 115 of the *Solvency II Directive*]

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6.3 A firm with ~~internal model approval~~internal model permission must not:

- (1) make any major change to its *internal model*; or
- (2) make any change to its *internal model change policy*, other than those allowed by 6.4; without obtaining the prior approval of the PRA to vary the *firm's internal model permission* in accordance with the procedures set out in 3 to 5 for obtaining *internal model approval*.

[Note: Art. 115 of the *Solvency II Directive*]

6.4 A firm with *internal model permission* may make changes to its *internal model change policy* which are administrative in nature, and do not:

- (1) make substantive changes to the process set out in the *internal model change policy*; or
- (2) affect the outcome or scope of the *internal model change policy*.

6.5 A firm that applies to the PRA for prior approval to vary its *internal model permission* in order to make any major change to its *internal model* or to make a change to its *internal model change policy* must apply in accordance with the procedures set out in 3 to 5 for obtaining *internal model permission*.

6.6 For the purpose of 6.5, if a firm applying to the PRA has an *internal model permission* that modifies any of the *internal model requirements* applicable to that firm, it must also submit documentary evidence for the purposes of 3.1(1) or (2) by reference to the unmodified *internal model requirements*, and the firm must also:

- (1) confirm, in accordance with 3.1(1); or
- (2) explain, in accordance with 3.1(2),  
by reference to the unmodified *internal model requirements*.

6.7 This rule modifies 6.3(2) and 6.5 for a transitional period following [31 December 2024] as follows:

- (1) A firm that applies *model limitation adjustments* within the *internal model* for which it has *internal model permission* may, until [31 December 2026], make a change to its *internal model change policy* solely in order to document procedures for applying, reviewing and removing those *model limitation adjustments* without the prior approval of the PRA for a variation of its *internal model permission*.
- (2) A firm that makes changes of a description permitted in (1) to its *internal model change policy* must apply to the PRA before [31 December 2026] to vary its *internal model permission* in order to reflect those changes to its *internal model change policy* in accordance with the procedures set out in 3 to 5 for obtaining *internal model permission*.

## 7 RESPONSIBILITIES OF THE FIRM'S GOVERNING BODY

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7.1 A firm's:

- (1) ~~internal model approval application~~internal model permission application; and
- (2) application to the PRA for approval to vary its *internal model permission* in order to make a major change to its *internal model* which is the subject of an *internal model approval*; must be approved by the *firm's governing body*.

[Note: Art. 116 of the *Solvency II Directive*]

...

## 8 REVERSION TO THE STANDARD FORMULA

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8.1 A firm with an ~~internal model approval~~internal model permission must not, in respect of the *internal model* for which that ~~internal model approval~~internal model permission has been granted, revert to calculating the whole or any part of the SCR in accordance with the *standard formula*.

[Note: Art. 117 of the *Solvency II Directive*]

## 9 NON-COMPLIANCE OF THE INTERNAL MODEL

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9.1 If a firm with ~~internal model approval~~internal model permission ceases to comply with the *internal model requirements*, the firm must, without delay, either present to the PRA a plan to restore compliance within a reasonable period of time, or demonstrate to the PRA that the effect of non-compliance is immaterial.

[Note: Art. 118(1) of the *Solvency II Directive*]

## 10 USE TEST

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...

10.1A An *internal model* shall not be considered to be widely used in or to play an important role in the system of governance of a firm where the quantifications of risks and the risk ranking produced by the *internal model* do not trigger timely and appropriate risk management actions, where relevant.

...

10.3 A firm must ensure the ongoing appropriateness of the design and operations of its *internal model*, and that the *internal model* continues to appropriately reflect the risk profile of the ~~firm~~firm.

[Note: Art. 120 of the *Solvency II Directive*]

10.4 A firm must ensure that the design of the *internal model* is aligned with its activities, including by ensuring:

- (1) the *internal model* is capable of producing outputs that are sufficiently granular to play an important role in the relevant management decisions of the firm; and
- (2) that, as a minimum, the outputs of the *internal model* differentiate between *lines of business*, between risk categories and between *major business units*.

10.5 A firm must ensure that the *internal model change policy* provides that the *internal model* is to be adjusted for changes in the scope or nature of the activities of the firm.

10.6 Subject to 10.1, where a firm decides not to use the *internal model* for a part of the system of governance, the firm must notify the PRA and justify that decision.

10.7 Where the *internal model* is used for different purposes, a firm must ensure consistency between the different outputs of the *internal model*.

10.8 A firm must ensure that its *governing body* and any other persons who effectively run the firm have a sufficient understanding of the *internal model* which comprises knowledge about all of the following:

- (1) the structure of the *internal model* and the way the *internal model* fits to the business and is integrated in the risk-management system of the firm;
- (2) the scope and purposes of the *internal model* and the risks that are or are not included in the coverage of the *internal model*;
- (3) the general methodology applied in the *internal model* calculations;



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- (4) the limitations of the *internal model*;
- (5) the *diversification effects* taken into account in the *internal model*; and
- (6) the material expert judgements used to set assumptions underlying the *internal model*.

10.9 A firm must ensure that the persons who effectively run the firm have a sufficiently detailed understanding of the parts of the *internal model* used in the area for which they are responsible.

10.10 In order to meet the requirements in 10.2, a firm may use a simplified calculation of the SCR, in which it carries out only a part of the calculations usually necessary to determine the SCR, if and to the extent that the firm:

- (1) uses results from the previous calculation of the SCR for the remaining part of the calculation;
- (2) is able to demonstrate upon request by the PRA that the results taken from the previous calculation of the SCR would not be materially different from the results of a new calculation; and
- (3) does not use a simplified calculation of the SCR for the purposes of meeting Solvency Capital Requirements - General Provisions 4.

## **11 STATISTICAL QUALITY STANDARDS**

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11.1 A firm must ensure that its *internal model* and, in particular, the calculation of the *probability distribution forecast* generated by underlying it, complies with 11.2 to 11.8<sup>13</sup>.

[Note: Art. 121(1) of the *Solvency II Directive*]

11.2 The methods used to calculate the *probability distribution forecast* must be:

- (1) based on adequate, applicable and relevant actuarial and statistical techniques;
- (2) based upon current and credible information and realistic assumptions that make adequate allowance for uncertainty; and
- (3) consistent with the methods used to calculate *technical provisions*, except where this would result in the firm failing to comply with 11.6.

[Note: Art. 121(2) of the *Solvency II Directive*]

...

11.4 ...

- (1A) Data used in the *internal model* shall only be deemed complete for the purposes of 11.4(1) where data are available for all relevant *internal model* parameters and no such relevant data are excluded from use in the *internal model* without justification.
- (2) A firm must update the data sets used in the calculation of the *probability distribution forecast* at least annually, and collect, process and apply data in a transparent and structured manner.

[Note: Art. 121(3) of the *Solvency II Directive*]

...

11.6 The *internal model* must cover all of the material risks to which the firm is exposed, including at least the risks set out in Solvency Capital Requirement – General Provisions 3.3(1).

[Note: Art. 121(4) of the *Solvency II Directive*]

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11.6A For the purposes of 11.6, a firm must assess, at least on a quarterly basis, whether the internal model covers all material quantifiable risks within its scope. The assessment must take into account an appropriate set of qualitative and quantitative indicators.

11.6B The qualitative indicators referred to in 11.6A must include any risks identified in the ORSA that are not included in the coverage of the internal model.

...

11.8 A firm's internal model must only take into account:

- (1) as regards *diversification effects*, dependencies within and across risk categories, if ~~the PRA is satisfied, as part of the internal model approval,~~ that the firm's system for measuring those *diversification effects* is adequate;
- (2) the effect of *risk-mitigation techniques*, if and to the extent that *credit risk* and other risks arising from the use of *risk-mitigation techniques* are properly reflected (in accordance with 11.10) in the internal model; and
- (3) future management actions, if and to the extent that:
  - (a) they are future management actions that the firm would, in a manner consistent with [Article 23 of the Commission Delegated Regulation (Solvency II) 2015/35], applied in the context of this Part, reasonably expect to carry out in specific circumstances; and
  - (b) the firm makes allowance in its *internal model* for the time and expenses necessary to implement those actions.

[Note: Art. 121(5), (6) and (8) of the *Solvency II Directive*]

11.9 A firm's system used for measuring *diversification effects* referred to in 11.8(1) shall only be considered adequate where it:

- (1) identifies the key variables driving dependencies; and
- (2) takes into account all of the following:
  - (a) any non-linear dependence and any lack of diversification under extreme scenarios;
  - (b) any restrictions of diversification which arise from the existence of a ring-fenced fund or *matching adjustment portfolio*; and
  - (c) the characteristics of the *risk measure* used in the *internal model*.

11.10 In order to comply with 11.8(2), a firm must not include risks arising from any of the following situations:

- (1) the contractual arrangements relating to the *risk-mitigation technique* are, in any relevant jurisdiction, not legally effective and enforceable or do not ensure that the transfer of risk is clearly defined and incontrovertible;
- (2) the firm does not have a direct claim on the *counterparty* in the event of the default, insolvency or bankruptcy of the *counterparty* or other credit event set out in the transaction documentation to the arrangements relating to the *risk-mitigation technique*; and
- (3) the legal arrangements underlying the *risk-mitigation technique* do not contain an explicit reference to a specific risk exposure clearly defining the extent of the cover provided by the *risk-mitigation technique*.

11.11 Where the *risk-mitigation technique* referred to in 11.10(3) does not cover the risk exposure of the firm in all cases, a firm must ensure that its *internal model* takes into account the reduced effectiveness of the *risk-mitigation technique* resulting from this deviation of risk exposures, in order to comply with 11.8(2).

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11.12 Where a *risk-mitigation technique* is subject to a condition, the fulfilment of which is outside the direct control of the *firm* and which could undermine the effective transfer of risk, a *firm* must ensure that its *internal model* takes into account the effect of the condition and any reduced effectiveness of that *risk-mitigation technique*, in order to comply with 11.8(2).

11.13

(1) Where a *firm* uses in its *internal model* parts obtained from a third party, in order for the *internal model* to be considered adequate the *firm* must be able to demonstrate a sufficient understanding of those parts, including their limitations, such that the *firm* can:

(a) provide meaningful challenge in order to ensure that those parts operate to achieve the overall purpose for which they were developed; and

(b) explain how the operation of those parts enables the *internal model* and, if the context requires, the *firm* to comply with the *internal model requirements* and Solvency Capital Requirement – General Provisions 3.3 and 3.4.

(2) Where a *firm* uses in its *internal model* data obtained from a third party, in order for those data to be considered to be appropriate, a *firm* must be able to demonstrate a sufficient understanding of those data, including their limitations.

...

### **13 PROFIT AND LOSS ATTRIBUTION [DELETED]**

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~~13.1 A *firm* with *internal model approval* must review, at least annually, the causes and sources of profits and losses for each *major business unit*. [Deleted]~~

~~[Note: Art. 123 of the *Solvency II Directive*]~~

~~13.2 A *firm* must demonstrate how the categorisation of risk chosen in its *internal model* explains the causes and sources of profits and losses. [Deleted]~~

~~[Note: Art. 123 of the *Solvency II Directive*]~~

~~13.3 A *firm* must ensure that its categorisation of risk and attribution of profits and losses reflects its risk profile. [Deleted]~~

~~[Note: Art. 123 of the *Solvency II Directive*]~~

### **13A ANALYSIS OF CHANGE**

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13A.1 A *firm* with *internal model permission* must annually carry out an analysis comparing the change in:

(1) the *firm's SCR* as at the *firm's* most recent financial year end; and

(2) (subject to 13A.2) the *firm's SCR* as at the *firm's* previous financial year end.

13A.2 Where, a *firm* receives an *internal model permission* for the first time which takes effect part way through its financial year, the *firm* must compare its *SCR* as at the end of that financial year with the *SCR* that would have been calculated as at the *firm's* previous financial year end, if the *firm's internal model permission* had taken effect at that time.

13A.3 The analysis referred to in 13A.1 must include reasons, and documentary evidence to support those reasons, explaining any change in *SCR*.

13A.4 Commencing with the *firm's* first financial year end on or after 31 December 2025, or if the *firm* first receives an *internal model permission* which takes effect after 31 December 2025, commencing with its first financial year end after the date that *internal model permission* took effect, the *firm* must submit the analysis, reasons and documentary evidence in 13A.1 to 13A.3 to the *PRA* as part of the information reported under Reporting 2.

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13A.5 13A.1 applies to a firm in respect of each of its financial years ending on or after 31 December 2024 or, if the firm first receives an internal model permission which takes effect after 31 December 2024, each of its financial years ending on or after the date that internal model permission took effect.

## **14 VALIDATION STANDARDS**

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14.1

...

- (3) In order to be able to demonstrate to the PRA that the resulting capital requirements are appropriate, a firm must:
- (a) compare the coverage of the internal model with the scope of the internal model; and
  - (b) ensure that the statistical process for validating the internal model includes stress tests, including a reverse stress test, identifying the most probable stresses that would threaten the viability of the firm.
- (4) Where a firm observes in accordance with 14.1(1)(c) and (d) that changes in a key underlying assumption have a significant impact on the SCR, it must be able to explain the reasons for this sensitivity and how the sensitivity is taken into account in its decision-making process. For the purposes of 14.1(1)(c) and (d) the key assumptions shall include assumptions on future management actions and assumptions set using expert judgements.

[Note: Art. 124 of the Solvency II Directive]

14.2 In order to ensure independence of the internal model validation process from the development and operation of the internal model, a firm must ensure that the persons or organisational unit shall, when carrying out the internal model validation process, be free from influence from those responsible for the development and operation of the internal model.

## **15 DOCUMENTATION STANDARDS**

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...

15.2 The documentation referred to in 15.1 must:

- (1) demonstrate compliance with 10 to 14, 16 and 16A;
- (2) provide a detailed outline of the theory, assumptions, and mathematical and empirical bases underlying the internal model;
- (3) indicate any circumstances under which the internal model does not work effectively; and
- (4) include all major changes to the internal model, as referred to in 6, and
- (5) in the case of a partial internal model, in addition to the requirements in 15.2(1) to 15.2(4):
  - (a) include the justification for the limited scope of the internal model;
  - (b) include a description of the integration technique used to fully integrate the capital requirement generated by the partial internal model into the standard formula SCR; and
  - (c) demonstrate compliance with 4.2(2) and (3).

[Note: Art. 125 of the Solvency II Directive]

## **16 EXTERNAL MODELS AND DATA**

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...

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16.2 A firm must monitor any potential limitations arising from the use of external models or external data in the *internal model* to ensure the ongoing fulfilment of Solvency Capital Requirement – General Provisions 3.2 – 3.5, the *internal model requirements*, and Solvency Capital Requirement – Internal Models 4.2 and 5 in respect of a *partial internal model*.

**16A INTEGRATION OF PARTIAL INTERNAL MODELS**

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16A.1 Unless 16A.2 or 16A.3 applies, a firm must use as a default integration technique the correlation matrices and formulae of the *standard formula* set out in Solvency Capital Requirement - Standard Formula 3.1 and in [Articles 83 to 221 of the Commission Delegated Regulation (Solvency II) 2015/35] in order to fully integrate the capital requirement generated by a *partial internal model* into the *standard formula SCR*.

16A.2 Unless 16A.3 applies, where it would not be appropriate to use the default integration technique referred to in 16A.1 for any of the reasons referred to in 16A.5, the firm must use the most appropriate integration technique of those set out in 16B – 16G and be able to explain and justify its choice.

16A.3 If the default integration technique referred to in 16A.1 and all integration techniques set out in 16B - 16G are inappropriate for one or more reasons referred to in 16A.5, the firm may use an alternative integration technique that is appropriate and must be able to explain and justify its choice.

16A.4 The firm must ensure that the alternative integration technique referred to in 16A.3 that it uses results in an SCR that complies with the principles set out in the Solvency Capital Requirement - General Provisions Part and this Part and more appropriately reflects the risk profile of the firm.

16A.5 An integration technique shall not be appropriate where any of the following applies:

- (1) the resulting SCR and, if the context requires, the firm would not comply with Solvency Capital Requirement - General Provisions 3.2 - 3.5;
- (2) the resulting SCR would not appropriately reflect the risk profile of the firm;
- (3) the design of the *partial internal model* is consistent with the principles set out in Solvency Capital Requirement - General Provisions 3.2 - 3.5 and 4 but it would not be possible to use the integration technique to fully integrate the capital requirement generated by the *partial internal model* into the *standard formula SCR*.

**16B INTEGRATION TECHNIQUES FOR PARTIAL INTERNAL MODELS - GENERAL PROVISIONS**

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16B.1 For the purposes of 16B to 16G, *basic SCR* shall mean the *basic SCR* as supplemented or amended for the purposes of applying the relevant integration techniques in 16B to 16G.

16B.2 Where a firm applies integration techniques 1 to 5, its SCR must be the sum of the following items:

- (1) the *basic SCR* as set out in 16C to 16G;
- (2) the capital requirement for *operational risk* as laid down in Solvency Capital Requirement – Standard Formula 5, where that risk is not within the *scope of the partial internal model*, and generated by the *partial internal model*, where that risk is within the *scope of the partial internal model*;
- (3) the adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes, as laid down in 16B.3, where that adjustment is not within the *scope of the partial internal model*, and generated by the *partial internal model* where that adjustment is within the *scope of the partial internal model*.

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16B.3 Where the adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes is not within the *scope* of the *partial internal model*, the *firm* must calculate it as laid down in [Articles 205 to 207 of the Commission Delegated Regulation (Solvency II) 2015/35], but with the following changes:

- (1) the *basic SCR* referred to in [Articles 206(1) and (2) and 207(1) of the Commission Delegated Regulation (Solvency II) 2015/35] is calculated in accordance with 16C to 16G;
- (2) [points (a) to (d) of Article 206(2) of the Commission Delegated Regulation (Solvency II) 2015/35] apply only to calculations with the *standard formula*;
- (3) for the purposes of [Article 206(2) of the Commission Delegated Regulation (Solvency II) 2015/35] the capital requirements used in the calculation of the *basic SCR* that are generated by the *partial internal model* must take into account the risk-mitigating effect provided by *future discretionary benefits of contracts of insurance*;
- (4) the capital requirement for *operational risk* referred to in [Article 207(1)(c) of the Commission Delegated Regulation (Solvency II) 2015/35] is calculated in accordance with 16B.2(2).

### **16C PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 1**

16C.1 The *basic SCR* must be equal to the sum of the capital requirements for the *units of the partial internal model*, the capital requirement derived by applying the *standard formula* for the *basic SCR* only to the risks that are out of *scope* of the *partial internal model* and the capital requirement for intangible asset risk as set out in [Article 203 of the Commission Delegated Regulation (Solvency II) 2015/35].

### **16D PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 2**

16D.1 The *basic SCR* must be equal to the following:

$$BSCR = \sqrt{\sum_{i,j} \text{Corr}_{(i,j)} \cdot SCR_i \cdot SCR_j} + SCR_{\text{int}}$$

where:

- (1) the sum covers all possible combinations  $(i, j)$  of the aggregation list set out in 16D.2;
- (2)  $\text{Corr}_{(i,j)}$  denotes the correlation parameter for items  $i$  and  $j$  of the aggregation list;
- (3)  $SCR_i$  and  $SCR_j$  denote the capital requirements for items  $i$  and  $j$  of the aggregation list, respectively;
- (4)  $SCR_{\text{int}}$  denotes the capital requirement for intangible asset risk as set out in [Article 203 of the Commission Delegated Regulation (Solvency II) 2015/35].

16D.2 The items on the aggregation list must meet the following requirements:

- (1) they must cover each of the *units of the partial internal model*;
- (2) they must include each of the following sub-modules of the *standard formula* excluding those within the *scope* of the *partial internal model*:
  - (a) the sub-modules of the non-life *underwriting risk* module set out in [Article 114(1) of the Commission Delegated Regulation (Solvency II) 2015/35];
  - (b) the sub-modules of the life *underwriting risk* module set out in Solvency Capital Requirement – Standard Formula 3.7 – 3.9;
  - (c) the sub-modules of the health *underwriting risk* module set out in [Article 151(1) of the Commission Delegated Regulation (Solvency II) 2015/35]; and

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(d) the sub-modules of the *market risk* module set out in Solvency Capital Requirement – Standard Formula 3.11;

(3) they must include the counterparty default risk module of the *standard formula* unless it is within the *scope* of the *partial internal model*.

However, where none of the sub-modules of a module of the *standard formula* are within the *scope* of the *partial internal model*, the aggregation list must include that module instead of its sub-modules.

16D.3 The correlation parameters referred to in 16D.1(2) must comply with the following requirements:

(1) for all items  $i$  and  $j$  from the aggregation list the correlation parameter  $\text{Corr}_{(i,j)}$  must not be less than -1 and must not exceed 1;

(2) for all items  $i$  and  $j$  from the aggregation list the correlation parameters  $\text{Corr}_{(i,j)}$  and  $\text{Corr}_{(j,i)}$  must be equal;

(3) for all items  $i$  from the aggregation list the correlation parameter  $\text{Corr}_{(i,i)}$  must be equal to 1;

(4) for any assignment of real numbers to the items of the aggregation list the following must hold:

$$\sum_{i,j} \text{Corr}_{(i,j)} \cdot x_i \cdot x_j \geq 0$$

where:

(a) the sum covers all possible combinations  $(i,j)$  of the aggregation list; and

(b)  $x_i$  and  $x_j$  are the numbers assigned to the items  $i$  and  $j$ , respectively, of the aggregation list;

(5) where the items  $i$  and  $j$  from the aggregation list are modules of the *standard formula*, the correlation parameter  $\text{Corr}_{(i,j)}$  must be equal to the correlation parameter of the *standard formula* that is used to aggregate those two modules;

(6) where the items  $i$  and  $j$  from the aggregation list are sub-modules of the same module of the *standard formula*, then the correlation parameter  $\text{Corr}_{(i,j)}$  must be equal to the correlation parameter of the *standard formula* that is used to aggregate those two sub-modules;

(7) for all items  $i$  and  $j$  from the aggregation list the correlation parameter  $\text{Corr}_{(i,j)}$  must not be less than  $\text{Corr}_{(i,j)}^{\min}$  and must not exceed  $\text{Corr}_{(i,j)}^{\max}$ , where  $\text{Corr}_{(i,j)}^{\min}$  and  $\text{Corr}_{(i,j)}^{\max}$  are appropriate lower and upper bounds selected by the *firm*.

A *firm* must choose the correlation parameters referred to in 16D.1(2) in such a way that no other set of correlation parameters that meets the requirements set out in (1) to (7) results in a higher *basic SCR*, calculated in accordance with 16D.1.

### **16E PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 3**

16E.1 The *basic SCR* must be equal to the following:

$$\text{BSCR} = \sqrt{\sum_{i,j} S_S^2 + 2S_S(\omega_1 \cdot P_C + \omega_2 \cdot P_S) + P^2} + \text{SCR}_{\text{int}}$$

where:

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- (1)  $S_\zeta$  denotes the capital requirement derived by applying the *standard formula* for the *basic SCR* only to the risks not covered by the *partial internal model*;
- (2)  $\omega_1$  denotes the first implied correlation parameter as set out in 16E.2;
- (3)  $P_c$  denotes the capital requirement reflecting the risks that are both within the scope of the *standard formula* and the scope of the *partial internal model*, generated by the *partial internal model*;
- (4)  $\omega_2$  denotes the second implied correlation parameter as set out in 16E.3;
- (5)  $P_\zeta$  is the capital requirement reflecting the risks within the scope of the *partial internal model* but not within the scope of the *standard formula*, generated by the *partial internal model*;
- (6)  $P$  denotes the capital requirement reflecting the risks that are within the scope of the *partial internal model*, generated by the *partial internal model*;
- (7)  $SCR_{int}$  denotes the capital requirement for intangible asset risk as set out in [Article 203 of the Commission Delegated Regulation (Solvency II) 2015/35].

16E.2 The first implied correlation parameter must be equal to the following:

$$\omega_1 = \frac{S^2 - S_S^2 - S_C^2}{d_1 + 2 \cdot S_S \cdot S_C}$$

where:

- (1)  $S$  denotes the capital requirement calculated in the same way as the *basic SCR* by means of the *standard formula*, but where capital requirements for modules or sub-modules are replaced by capital requirements for those modules or sub-modules that are generated by the *partial internal model*, where possible;
- (2)  $S_c$  denotes the capital requirement derived by applying the *standard formula* for the *basic SCR* only to the risks that are within the scope of the *standard formula* and the scope of the *partial internal model*, but where the capital requirements for the modules and sub-modules are replaced by capital requirements for those modules or sub-modules that are generated by the *partial internal model*;
- (3)  $S_\zeta$  is defined as in 16E.1(1);
- (4)  $d_1$  is equal to 1 where  $S_\zeta$  or  $S_c$  are zero and equal to zero where  $S_\zeta$  and  $S_c$  are different from zero.

16E.3 The second implied correlation parameter must be equal to the following:

$$\omega_2 = \omega_1 \cdot \omega_3 + \frac{1}{2} \sqrt{(1 - \omega_1^2)(1 - \omega_3^2)}$$

where  $\omega_1$  is as defined in 16E.2 and  $\omega_3$  is the third implied correlation parameter as set out in 16E.4.

16E.4 The third implied correlation parameter must be equal to the following:

$$\omega_3 = \frac{P^2 - P_S^2 - P_C^2}{d_2 + 2 \cdot P_S \cdot P_C}$$

where:

- (1)  $P$ ,  $P_\zeta$  and  $P_c$  are as defined in 16E.1;
- (2)  $d_2$  is equal to 1 where  $P_\zeta$  or  $P_c$  are zero and equal to zero where  $P_\zeta$  and  $P_c$  are different from zero.



## 16F PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 4

---

16F.1 The *basic SCR* must be equal to the following:

$$\text{BSCR} = \sqrt{P^2 + S_2^2 + \sum_{j=k+1}^n 2S_j \left( \sum_{i=1}^l \text{Corr}_{(i,j)} \cdot P_i + \sum_{i=l+1}^k \text{Corr}_{(i,j)} \cdot S_i \right)} + \text{SCR}_{\text{int}}$$

where:

- (1)  $P$  denotes the capital requirement reflecting the risks that are within the scope of the *partial internal model*, generated by the *partial internal model*;
- (2)  $S_s$  denotes the capital requirement derived by applying the *standard formula* for the *basic SCR* only to the risks not covered by the *partial internal model*;
- (3)  $k$  denotes the number of modules of the *standard formula* that are within the scope of the *partial internal model*;
- (4)  $n$  denotes the number of modules of the *standard formula*;
- (5)  $l$  denotes the number of modules of the *standard formula* for each of which the capital requirement can be generated by the *partial internal model*;
- (6)  $\text{Corr}_{(i,j)}$  denotes the correlation parameter of the *standard formula* for the aggregation of modules  $i$  and  $j$ ;
- (7)  $P_i$  denotes the capital requirement for the module  $i$  of the *standard formula*, generated by the *partial internal model*;
- (8)  $S_i$  and  $S_j$  denote the capital requirements for modules  $i$  and  $j$  of the *standard formula*, respectively, which are calculated in the following way:
  - (a) the module is generated by the *standard formula* provided that the module does not consist of sub-modules; and
  - (b) the module is calculated in accordance with 16F.2 provided that the module consists of sub-modules;
- (9)  $\text{SCR}_{\text{int}}$  denotes the capital requirement for intangible asset risk as set out in [Article 203 of the Commission Delegated Regulation (Solvency II) 2015/35].

16F.2 For all modules of the *standard formula* referred to in 16F.1(8)(b), the capital requirement of a particular module must be generated by the formula set out in 16F.1, applying the following specifications:

- (1)  $P$  denotes the capital requirement reflecting the risks of the sub-modules of that particular module which are within the scope of the *partial internal model*, generated by the *partial internal model*;
- (2)  $S_s$  denotes the capital requirement derived by applying that particular module only to the risks not covered by the *partial internal model*;
- (3)  $k$  denotes the number of sub-modules of that particular module that are within the scope of the *partial internal model*;
- (4)  $n$  denotes the number of sub-modules of that particular module;
- (5)  $l$  denotes the number of sub-modules of that particular module for each of which the capital requirement can be generated by the *partial internal model*;

**These are near-final rules, published with PS2/24**

- (6)  $\text{Corr}_{(i,j)}$  denotes the correlation parameter of the *standard formula* for the aggregation of sub-modules  $i$  and  $j$  of that particular module;
- (7)  $P_i$  denotes the capital requirements for the sub-module  $i$  of that particular module, generated by the *partial internal model*;
- (8)  $S_i$  and  $S_j$  denote the capital requirement for sub-modules  $i$  and  $j$  of that particular module, respectively, which are calculated in the following way:
  - (a) the sub-module is generated by the *standard formula* provided that the sub-module does not consist of other sub-modules; and
  - (b) the sub-module is calculated in accordance with 16F.3 provided that the sub-module consists of other sub-modules;
- (9)  $\text{SCR}_{\text{int}}$  must be set to zero.

16F.3 For all sub-modules of the *standard formula* referred to in 16F.2(8)(b), the capital requirement of a particular sub-module must be generated by the formula set out in 16F.1, applying the following specifications:

- (1)  $P$  denotes the capital requirement reflecting the risks of the sub-modules of that particular sub-module which are within the *scope* of the *partial internal model*, generated by the *partial internal model*;
- (2)  $S_c$  denotes the capital requirement derived by applying that particular sub-module only to the risks not covered by the *partial internal model*;
- (3)  $k$  denotes the number of sub-modules of that particular sub-module that are within the *scope* of the *partial internal model*;
- (4)  $n$  denotes the number of sub-modules of that particular sub-module;
- (5)  $l$  denotes the number of sub-modules of that particular sub-module for each of which the capital requirement can be generated by the *partial internal model*;
- (6)  $\text{Corr}_{(i,j)}$  denotes the correlation parameter of the *standard formula* for the aggregation of sub-modules  $i$  and  $j$  of that particular sub-module;
- (7)  $P_i$  denotes the capital requirement for the sub-module  $i$  of that particular sub-module, generated by the *partial internal model*;
- (8)  $S_i$  and  $S_j$  denote the capital requirements for sub-modules  $i$  and  $j$  of that particular sub-module, respectively, which are calculated in the following way:
  - (a) the sub-module is generated by the *standard formula* provided that the sub-module does not consist of other sub-modules; and
  - (b) the sub-module is calculated in accordance with this paragraph provided that the sub-module consists of other sub-modules;
- (9)  $\text{SCR}_{\text{int}}$  must be set to zero.

**16G PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 5**

16G.1 The *basic SCR* must be equal to the following:

$$\text{BSCR} = \sqrt{P^2 + S_2^2 + \frac{2P}{\sqrt{\sum_{i=1}^k \sum_{j=1}^k \text{Corr}_{(i,j)} \cdot S_i \cdot S_j}} \sum_{j=k+1}^n \sum_{i=1}^k \text{Corr}_{(i,j)} \cdot S_i \cdot S_j + \text{SCR}_{\text{int}}}$$

where:

**These are near-final rules, published with PS2/24**

- (1)  $P, S_S, k, n, Corr_{(i,j)}$  and  $SCR_{int}$  are defined as in 16F.1;
- (2)  $S_i$  and  $S_j$  denote the capital requirements for modules  $i$  and  $j$ , respectively of the *standard formula* which are calculated in the following way:
  - (a) the module is generated by the *standard formula* provided that the module does not consist of sub-modules;
  - (b) the module is calculated in accordance with 16G.2 provided that the module consists of sub-modules.

16G.2 For all modules of the *standard formula* referred to in 16G.1(2)(b), the capital requirement of a particular module must be generated by the formula set out in 16G.1, applying the following specifications:

- (1)  $P, S_S, k, n, Corr_{(i,j)}$  and  $SCR_{int}$  are defined as in 16F.2;
- (2)  $S_i$  and  $S_j$  denote the capital requirement for sub-modules  $i$  and  $j$  of that particular module, respectively, which are calculated in the following way:
  - (a) the sub-module is generated by the *standard formula* provided that the sub-module does not consist of other sub-modules; and
  - (b) the sub-module is calculated in accordance with 16G.3 provided that the sub-module consists of other sub-modules.

16G.3 For all modules of the *standard formula* referred to in 16G.2(2)(b), the capital requirement of a particular module must be generated by the formula set out in 16G.1, applying the following specifications:

- (1)  $P, S_S, k, n, Corr_{(i,j)}$  and  $SCR_{int}$  are defined as in 16F.3;
- (2)  $S_i$  and  $S_j$  denote the capital requirements for sub-modules  $i$  and  $j$  of that particular module, respectively, which are calculated in the following way:
  - (a) the sub-module is generated by the *standard formula* provided that the sub-module does not consist of other sub-modules; and
  - (b) the sub-module is calculated in accordance with this paragraph provided that the sub-module consists of other sub-modules.

...

Annex G

Amendments to the Technical Provisions Part

In this Annex deleted text is struck through.

**1 APPLICATION AND DEFINITIONS**

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...

1.2 In this Part, the following definition shall apply:

...

~~relevant portfolio of assets~~

~~means the assigned portfolio of assets, consisting of bonds and other assets with similar cash-flow characteristics, to cover the best estimate of the relevant portfolio of insurance or reinsurance obligations, referred to in regulation 42(4)(a) and (b) of the Solvency 2 Regulations 2015.~~

...

Near-final

**Annex H**

**Transitional Measure on Technical Provisions Part**

In this Annex the text is all new and is not underlined.

**Part**

**TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS**

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**Chapter Content**

- 1. APPLICATION AND DEFINITIONS**
- 2. TMTP PERMISSION**
- 3. REPORTING**
- 4. PRELIMINARY CALCULATION OF TMTP METHOD ITEMS**
- 5. TMTP CALCULATION**
- 6. TRANSFERS OF INSURANCE BUSINESS**
- 7. PHASING-IN PLAN**

**Near-final**

## 1 APPLICATION AND DEFINITIONS

---

1.1 This Part applies to:

- (1) a *UK Solvency II firm*;
- (2) the *Society*, in accordance with Insurance General Application 3; and
- (3) *managing agents*, in accordance with Insurance General Application 3.

1.2 In this Part, the following definitions shall apply:

*base TMTP*

is the figure calculated in accordance with 4.2(2).

*dynamic portion*

means the amount (which may be negative) of the *best estimate* for any *dynamic insurance and reinsurance obligations* less any amounts recoverable from *reinsurance contracts* and *special purpose vehicles* in respect of those obligations.

*dynamic insurance and reinsurance obligations*

means the *qualifying insurance and reinsurance obligations* designated by the *firm* in accordance with 4.2(1) and 6.1(1).

*INSPRU 7*

means the rules and guidance known as *INSPRU 7* (individual capital assessment) in the *PRA's Prudential Sourcebook for Insurers* as at 31 December 2015, made or treated as having been made by the *PRA* on 7 March 2013 under *FSMA* and the *Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013*.

*MA-eligible insurance and reinsurance obligations*

means the *qualifying insurance and reinsurance obligations* for which the *technical provisions* are calculated in accordance with *Technical Provisions 2.5(1)* and which comply with [Matching Adjustment, 2.2(1) to 2.2(4), 2.3 and 2.4] for a particular *firm*. For the purpose of this definition, references to *relevant portfolio of insurance or reinsurance obligations* in the *Matching Adjustment Part* are to be treated as references to *qualifying insurance and reinsurance obligations*.

*non-dynamic portion*

means the amount that is the sum of:

- (1) the amount (which may be negative) of the *best estimate* for any *qualifying insurance and reinsurance obligations* for which the *technical provisions* are calculated in accordance with *Technical Provisions 2.5(1)* other than any *dynamic insurance and reinsurance obligations*; and
- (2) the amount of any of the *firm's technical provisions* to which the *TMTP Permission* relates calculated in accordance with *Technical Provisions 2.5(2)*,

in both cases less any amounts recoverable from *reinsurance contracts* and *special purpose vehicles* in respect of those obligations.

*qualifying insurance and reinsurance obligations*

means insurance and *reinsurance obligations* for which the *technical provisions* are subject to a *TMTP Permission*.

## These are near-final rules, published with PS2/24

### *qualifying reinsurance contract*

means a proportional *reinsurance contract* between two *UK Solvency II firms*:

- (1) which transfers to the *reinsurer* a 100% share of the ceding *firm's* risk under the *reinsured contracts of insurance*;
- (2) where the ceding *firm* has *TMTP Permission* in relation to the *technical provisions* for its insurance and *reinsurance* obligations under the *contracts of insurance* referred to in (1); and
- (3) which is legally binding and enforceable in all relevant jurisdictions.

### *risk margin portion*

means, in relation to a *firm's technical provisions* calculated in accordance with Technical Provisions 2.5(1) to which a *TMTP Permission* relates, the amount of the *risk margin*.

### *TMTP method*

means the method set out in 5.1 for calculating the amount of *TMTP*, as updated following any *transfer event* in accordance with the requirements set out in 6.

### *transfer event*

means:

- (1) a transfer of *qualifying insurance and reinsurance obligations*;
- (2) the transfer of risk under a *qualifying reinsurance contract*;
- (3) an amendment to a *qualifying reinsurance contract* that results in a change to the volume of the risks ceded to the *reinsurer* under such *qualifying reinsurance contract*; or
- (4) the cancellation, expiration, termination, or commutation of a *qualifying reinsurance contract*.

## 2 TMTP PERMISSION

---

2.1 A *firm* may apply *TMTP* only:

- (1) if it has a *TMTP Permission*; and
- (2) to the extent of its *TMTP Permission*.

2.2 A *firm* that has a *TMTP Permission* must not apply the *risk-free interest rate transitional measure*.

2.3 A *firm* must not apply *TMTP* after 1 January 2032.

2.4 A *firm* may apply *TMTP* only to *technical provisions* for such of its insurance and *reinsurance* obligations that are the *firm's qualifying insurance and reinsurance obligations* on the 31 December 2024 or are such obligations assumed by the *firm* after 31 December 2024 as a result of a *transfer event*.

2.5 A *firm* must calculate *TMTP* using the *TMTP method*.

## 3 REPORTING

---

3.1 A *firm* must as part of its *SFCR* publicly disclose that it applies *TMTP* and the quantification of the impact of not applying *TMTP* on its financial position.

## 4 PRELIMINARY CALCULATION OF TMTP METHOD ITEMS

---

4.1 Chapter 4 has effect for determining:

**These are near-final rules, published with PS2/24**

- (1) where a firm elects to calculate a *dynamic portion*, the *dynamic insurance and reinsurance obligations*; and
  - (2) the values of 'Z<sub>A</sub>', 'Z<sub>B</sub>' and 'C<sub>0</sub>' in the *TMTP method*.
- 4.2 When applying the *TMTP method* for the first time, a firm must perform the following steps in sequence.

- (1) If it so elects, designate specific *MA-eligible insurance and reinsurance obligations* in respect of which the *dynamic portion* will be calculated.
- (2) Calculate the *base TMTP* so that it satisfies:

$$0 \leq T_0 \leq (X_N - Y_N) \left(1 - \frac{N}{16}\right)$$

where:

$T_0$  = *base TMTP*;

$X_N$  = the amount of the firm's *technical provisions* to which the *TMTP Permission* relates, as calculated as at 31 December 2024, less amounts recoverable (if any) from *reinsurance contracts* and *special purpose vehicles*. Where a *matching adjustment* or *volatility adjustment* is applied to those *technical provisions*, the amount of the firm's *technical provisions* must take into account the *matching adjustment* or *volatility adjustment*, as calculated as at 31 December 2024;

$Y_N$  = an amount equal to the amount of the firm's *technical provisions* to which the *TMTP Permission* relates, calculated as at 31 December 2024 in accordance with *INSPRU 7*, applied as at 31 December 2024, less amounts recoverable (if any) from *reinsurance contracts*; and

$N$  = represents the years from 2016 to 2032.  $N$  takes integer values from 0 to 16, so that 2016 is year 0, 2017 is year 1, 2018 is year 2, and continuing until 2032 which is year 16.

- (3) Express the *base TMTP* as:

$$\text{base TMTP} = (A_0 + B_0 + C_0)$$

where:

$A_0$  = the amount of the *base TMTP* attributable to the *risk margin portion*;

$B_0$  = the amount of the *base TMTP* attributable to the *dynamic portion*; and

$C_0$  = the amount of the *base TMTP* attributable to the *non-dynamic portion*.

- (4) Calculate 'Z<sub>A</sub>' as follows:

$$\frac{A_0}{D_0}$$

where:

$A_0$  = 'A<sub>0</sub>' as defined in 4.2(3); and

$D_0$  = the amount of the *risk margin portion* calculated as at 31 December 2024.

- (5) Calculate 'Z<sub>B</sub>' as follows:

$$\frac{B_0}{E_0}$$

where:



## These are near-final rules, published with PS2/24

$B_0$  = 'B<sub>0</sub>' as defined in 4.2(3); and

$E_0$  = the amount of the *dynamic portion* calculated as at 31 December 2024.

### 5 TMTP CALCULATION

---

5.1 A firm must calculate its *TMTP*, so that *TMTP* satisfies:

$$0 \leq T_r \leq (A_r + B_r + C_r - W_r)$$

where:

$T_r$  = the amount of *TMTP* as at the final day of the relevant reporting period;

$A_r$  = the amount of *TMTP* attributable to the *risk margin portion*, which is determined by multiplying 'Z<sub>A</sub>' as calculated in 4.2(4) with the *risk margin portion*, calculated as at the final day of the relevant reporting period;

$B_r$  = the amount of *TMTP* attributable to the *dynamic portion*, which is determined by multiplying 'Z<sub>B</sub>' as calculated in 4.2(5) with the *dynamic portion*, calculated as at the final day of the relevant reporting period;

$C_r$  = 'C<sub>0</sub>' as calculated in 4.2(3), multiplied by  $(1-M/7)$ ;

$M$  =

(a) on 31 December 2024, 0; or

(b) after 31 December 2024, represents the days elapsed since 1 January 2025 and must be calculated at least on the final day of each year-end reporting period and on the 1 January 2032 as follows:

$$\frac{x}{365}$$

where:

$X$  = the number of days since 1 January 2025 not including 29 February 2028, so that 1 January 2025 is 0; and

$W_r$  = an amount calculated in accordance with 5.2, to increase the rate of run-off of *TMTP*.

5.2 For the purpose of calculating the value of 'W<sub>r</sub>' referred to in 5.1, a firm must, on the same day on which the value of 'M' used in the *TMTP method* is updated and following any *transfer event* in accordance with 6.1(3), calculate a new value for 'W<sub>r</sub>' as follows:

$$\frac{(A_7 + B_7 - W_q)}{(7 - M)} + W_q$$

where:

$A_7$  = the projected *risk margin portion* as at 1 January 2032, multiplied by 'Z<sub>A</sub>';

$B_7$  = the projected *dynamic portion* as at 1 January 2032, multiplied by 'Z<sub>B</sub>';

$M$  = the value of 'M' in the *TMTP method* for the same reporting period; and

$W_q$  = the value of 'W<sub>r</sub>', if any, as at the final day of the previous reporting period.

### 6 TRANSFERS OF INSURANCE BUSINESS

---

6.1 Within two months of the effective date of any *transfer event*, a firm must:

(1) where a firm so elects, update its *dynamic insurance and reinsurance obligations* by designating specific *qualifying insurance and reinsurance obligations* assumed by the firm as a result of the *transfer event* that are *MA-eligible insurance and reinsurance obligations*;

## These are near-final rules, published with PS2/24

- (2) update the values of 'Z<sub>A</sub>', 'Z<sub>B</sub>' and 'C<sub>0</sub>' used in 5 to reflect any change in the *firm's qualifying insurance and reinsurance obligations*; and
  - (3) calculate 'W<sub>i</sub>' as at the effective date of the *transfer event* using the updated values derived from the steps taken in (1) and (2).
- 6.2 The updates under 6.1(1) and (2) must not result in any increase in the aggregate amount of *TMTP* claimed by the *firms* that are parties to the *transfer event*, such that:
- (1) where the *firm's technical provisions* increase as a result of the *transfer event*, the positive difference calculated in accordance with 6.3(3) must be no greater than the amount of *TMTP* that applied to the *qualifying insurance and reinsurance obligations* covered by such *transfer event* immediately prior to its effective date; or
  - (2) where the *firm's technical provisions* decrease as a result of the *transfer event*, the positive difference calculated in accordance with 6.3(3) must be no less than the amount of *TMTP* that applied to the *qualifying insurance and reinsurance obligations* covered by such *transfer event* immediately prior to its effective date.
- 6.3 For the purpose of calculating the positive difference referred to in 6.2, a *firm* must perform the following steps in sequence.
- (1) Calculate the output of the *TMTP method* as at immediately prior to the *transfer event*.
  - (2) Calculate the output of the *TMTP method* as at the effective date of the *transfer event* using any updated value derived from 6.1(1) to calculate the *dynamic portion*, and using the values derived from the steps in 6.1(2) and (3).
  - (3) Find the positive difference between the outputs calculated under 6.3(1) and (2).
- 6.4 A *firm* must use the same value for 'M' in each of the calculations referred to in 6.1(3) and 6.3(1) and (2).
- 6.5 A *firm* must submit to the *PRA* an explanation of any update to the *dynamic insurance and reinsurance obligations* in accordance with 6.1(1), the methods used to update 'Z<sub>A</sub>', 'Z<sub>B</sub>' and 'C<sub>0</sub>' in accordance with 6.1(2) and the calculations referred to in 6.3 as soon as possible and in any case no later than three *months* following the *transfer event*.

## 7 PHASING-IN PLAN

---

- 7.1 A *firm* with *TMTP Permission* must:
- (1) immediately inform the *PRA* as soon as it observes that the *SCR* would no longer be complied with without the application of *TMTP*;
  - (2) take the measures necessary to achieve compliance with the *SCR* by 1 January 2032; and
  - (3) within two *months* from the observation referred to in (1), submit a *phasing-in plan* to the *PRA*.
- 7.2 A *firm's phasing-in plan* must set out the planned measures to establish the level of *eligible own funds* covering the *SCR* or reduce its risk profile to ensure compliance with the *SCR* by 1 January 2032.
- 7.3 A *firm* that updates its *phasing-in plan* must submit the updated *phasing-in plan* to the *PRA* within two *months* of updating its *phasing-in plan*.
- 7.4 A *firm* that is required to submit a *phasing-in plan* in accordance with 7.1(3) must submit annually a report to the *PRA* setting out the measures taken and progress made to comply with the *SCR* by 1 January 2032.

**Annex I**

**Amendments to the Transitional Measures Part**

In this Annex new text is underlined and deleted text is struck through.

**Part**

**TRANSITIONAL MEASURES**

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**Chapter Content**

...

**11. TECHNICAL PROVISIONS [DELETED]**

...

**Near-final**

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

*phasing-in plan*

means the phasing-in plan required to be submitted by the *firm* to the *PRA* under 12.1.

...

## 10 RISK-FREE INTEREST RATES

---

10.5 ...

(2) not apply the ~~technical provisions transitional measure~~ *TMTP*; and

...

## 11 TECHNICAL PROVISIONS [DELETED]

---

11.1 A *firm* may only:

~~(1) apply a *transitional deduction* from its *technical provisions*; or~~

~~(2) recalculate the amount of any *transitional deduction*~~

~~if it has received approval to do so by the *PRA*. [Deleted]~~

[Note: Art. 308d(1) and (3) of the *Solvency II Directive*]

11.2 A *firm* with approval to apply the ~~*technical provisions transitional measure*~~ must:

~~(1) not apply the *risk-free interest rate transitional measure*; and~~

~~(2) as part of its *SFCR* publically disclose that it applies the *transitional deduction* and the quantification of the impact of not applying the *transitional deduction* on its financial position. [Deleted]~~

[Note: Art. 308d(5) of the *Solvency II Directive*]

## 12 PHASING-IN PLAN

---

12.1 A *firm* with approval to use the ~~*risk-free interest rate transitional measure*~~ ~~or the *technical provisions transitional measure*~~ must:

(1) immediately inform the *PRA* as soon as it observes that the *SCR* ~~would~~ is no longer be complied with without application of the ~~*risk-free interest rate transitional measure*~~ ~~or the *technical provisions transitional measure*~~;

(2) take the measures necessary to achieve compliance with the *SCR* by 1 January 2032; and

(3) within two *months* from the observation referred to in (1) ~~of non-compliance with the *SCR*~~ ~~without application of the *risk-free interest rate transitional measure*~~ ~~or the *technical provisions transitional measure*~~, submit a *phasing-in plan* to the *PRA*.

...

12.3 A *firm* that updates its *phasing-in plan* must submit the updated *phasing-in plan* to the *PRA* within two months of updating its *phasing-in plan*.

**These are near-final rules, published with PS2/24**

12.4 A firm with approval to use the *risk-free interest rate transitional measure* ~~or the *technical provisions transitional measure*~~ and that is required to submit a *phasing-in plan* in accordance with ~~subject to the requirement in~~ 12.1(3) must submit annually a report to the PRA setting out the measures taken and progress made to ensure compliance with the SCR by 1 January 2032.

...

Near-final

Annex J

Amendments to the Conditions Governing Business Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

~~technical provisions transitional measure~~

means a ~~transitional deduction~~ from a firm's ~~technical provisions~~ applied in accordance with Transitional Measures 11.1.

...

3 RISK MANAGEMENT

---

...

3.7 A firm that has received ~~internal model approval~~ internal model permission must ensure that its risk-management *function* covers the following additional tasks:

...

3.8 ...

(4) Where a firm applies the *matching adjustment*, the *volatility adjustment*, the *risk-free interest rate transitional measure* or the ~~TMT~~ ~~technical provisions transitional measure~~, it must perform the assessment of compliance with the capital requirements referred to in 3.8(2)(b) with and without taking into account those adjustments and transitional measures.

...

Near final

Annex K

Amendments to the Third Country Branches Part

In this Annex new text is underlined and deleted text is struck through.

Part

## THIRD COUNTRY BRANCHES

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### Chapter content

...

4. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT  
[DELETED]

...

6. ~~TECHNICAL PROVISIONS~~ FOR INSURANCE AND REINSURANCE OBLIGATIONS AND OWN FUNDS

...

14. TRANSITIONAL MEASURES [DELETED]

...

Near-final

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

*branch MCR*

means a capital requirement calculated in accordance with the Minimum Capital Requirement Part of the *PRA* Rulebook but taking account only of the operations effected by the *third country branch*.

...

*branch SCR*

means a capital requirement calculated in accordance with the *SCR Rules* but taking account only of the operations effected by the *third country branch*.

*branch technical provisions*

means the technical provisions established in accordance with the Technical Provisions Part of the *PRA* Rulebook to cover the insurance and *reinsurance* obligations assumed by a *third country branch undertaking* in the *UK*.

...

*pre-Solvency II branch MCR*

means the minimum capital requirement referred to in INSPRU 1.5.42R of the *PRA Handbook* that applied to the *third country branch undertaking* as at 31 December 2015.

...

## 3 LOCALISATION AND DEPOSIT OF ASSETS

---

3.1 A *third country branch undertaking* (except a *third country branch undertaking* that has a *third country pure reinsurance branch*) must hold in the *UK* assets required to cover the *branch SCR*.~~[Deleted]~~

...

3.3 A *third country branch undertaking* (except a *third country branch undertaking* that has a *third country pure reinsurance branch*) must hold on deposit as security in the *UK* with a *CRD credit institution* assets of an amount equal to at least ~~one quarter of the absolute floor of the *MCR* set out in Minimum Capital Requirement 3.2.~~

(1) £600,000 for a *third country insurance branch* whose *insurance business* is limited to *general insurance business*, except in the case where all or some of the *general insurance business classes* 10 to 15 are covered, in which case the amount must be at least £875,000;

(2) £875,000 for a *third country insurance branch* whose *insurance business* is limited to *long-term insurance business*; or

(3) the sum of the amounts set out in (1) and (2) for a *third country insurance branch* that is a *composite third country branch*.

[Note: Art. 162(2), Art. 166(4), Art. 167(1) and (2) of the *Solvency II Directive*]



#### 4 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT [DELETED]

---

4.1 ~~A third country branch undertaking must:~~

- ~~(1) calculate a branch SCR; and~~
- ~~(2) cover the branch SCR with eligible own funds. [Deleted]~~

4.2 ~~A third country branch undertaking must:~~

- ~~(1) calculate a branch MCR; and~~
- ~~(2) cover the branch MCR with eligible own funds. [Deleted]~~

4.3 ~~For the purposes of the calculations referred to in 4.1(1) and 4.2(1), the third country branch undertaking must take account only of the operations effected by the third country branch. [Deleted]~~

...

#### 5 CONTENTS OF THE BRANCH SCHEME OF OPERATIONS

---

5.1 The branch scheme of operations must set out the following:

...

- ~~(3) estimates of the future branch SCR on the basis of a forecast balance sheet, as well as the calculation methods used to derive those estimates; [deleted]~~
- ~~(4) estimates of the future branch MCR, on the basis of a forecast balance sheet, as well as the calculation method used to derive those estimates; [deleted]~~
- ~~(5) the state of the eligible own funds with respect to the branch SCR and branch MCR; [deleted]~~

...

~~(8) for the first three financial years:~~

...

- ~~(b) estimates of the financial resources intended to cover branch technical provisions, branch MCR and branch SCR the provisions referred to in 6.1;~~

...

~~[Note: Art. 162(2) and Art. 163(1) and (2) of the Solvency II Directive]~~

#### 6 TECHNICAL PROVISIONS FOR INSURANCE AND REINSURANCE OBLIGATIONS AND OWN FUNDS

---

6.1 A third country branch undertaking must establish adequate ~~branch technical provisions~~ provisions to cover the insurance and reinsurance obligations assumed by the third country branch undertaking in the UK, calculated in accordance with 6.1A to 6.1D.

6.1A A third country branch undertaking must calculate the provisions referred to in 6.1:

- (1) such that the calculation makes use of and is consistent with information provided by the financial markets and generally available data on underwriting risks (market consistency);
- (2) in a prudent, reliable and objective manner;
- (3) taking into account the principles set out in Valuation 2; and

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(4) in accordance with:

(a) 6.1B to 6.1E;

(b) Technical Provisions 9 to 12; and

(c) Technical Provisions 14,

where a reference to 'technical provisions' is to be interpreted as the provisions referred to in 6.1.

6.1B The insurance and reinsurance obligations referred to in 6.1 must be calculated using the branch best estimate unless 6.1D applies, in which case they must be calculated in accordance with 6.1D.

6.1C The branch best estimate must be calculated in accordance with:

(1) Technical Provisions 3; and

(2) Technical Provisions 5 to 8,

where a reference to 'best estimate' is to be interpreted as branch best estimate.

6.1D Where:

(1) future cash-flows associated with insurance or reinsurance obligations can be replicated reliably; and

(2) that replication is provided using financial instruments; and

(3) those financial instruments have a reliable market value which is observable,

then the value of those future cash-flows must be determined on the basis of the market value of those financial instruments.

6.1E

(1) A third country branch undertaking must ensure that the branch best estimate, and the assumptions underlying the calculation of the branch best estimate, are regularly compared against experience.

(2) Where the comparison in (1) identifies that a systematic deviation exists between the branch best estimate calculations and experience, the third country branch undertaking must make appropriate adjustments to the actuarial methods being used and/or the assumptions being made to ensure that the branch best estimate is calculated in accordance with 6.1A to 6.1C.

...

6.3 A third country branch undertaking must value assets and liabilities (other than the insurance and reinsurance obligations referred to in 6.1) in accordance with the Valuation Part of the PRA Rulebook for the purposes of establishing the branch technical provisions.

6.4 A third country branch undertaking must determine and classify its third country branch undertaking own funds for the purposes of complying with its branch SCR and branch MCR in accordance with the Own Funds Part of the PRA Rulebook as if it were a UK Solvency II firm. [Deleted]

6.5 A third country branch undertaking must fulfil the requirements in Own Funds 5 for the purposes of complying with its branch SCR and branch MCR as if it were a UK Solvency II firm. [Deleted]

[Note: Art. 165, Art. 166(1), (2) and (3) and Art. 167(4) of the Solvency II Directive]

## 7 CONDITIONS GOVERNING BUSINESS

---

7.1 A *third country branch undertaking* must fulfil the following requirements in the Conditions Governing Business Part of the ~~PRA Rulebook~~, as modified by 7.2, 7.3 and 7.4 to 7.6:

...

- (2) Conditions Governing Business 2.2 to 2.6; ~~and~~
- (3) Conditions Governing Business 3 to 7 (other than 3.3, 3.8(2)(b)(i), 3.8(2)(c), 3.8(4) and 3.8(5)); and
- (4) Conditions Governing Business 4 to 7.

7.2

- (1) A reference to “*SCR*” is to be interpreted as a reference to the *branch SCR*.~~[Deleted]~~
- (2) A reference to “*MCR*” is to be interpreted as a reference to:~~[Deleted]~~
  - (a) ~~[deleted.]~~
  - (b) ~~[deleted.]~~
  - (c) ~~the *branch MCR*.~~
- (3) A reference to “*technical provisions*” is to be interpreted as a reference to:  
...  
(c) the *branch technical provisions* provisions referred to in 6.1.

...

- (5) A reference to “*internal model*” is to be interpreted as a reference to any *internal model* used by a *third country branch undertaking* to calculate the *branch SCR*.~~[Deleted]~~
- (6) A reference to ‘*best estimate*’ is to be interpreted as ‘*branch best estimate*’.

...

7.5

- (1) In Conditions Governing Business 1.2, the reference to ‘*UK Solvency II firm*’ in the definition of ‘*concentration risk*’ is to be interpreted as ‘*third country branch undertaking*’.
- (2) In Conditions Governing Business 3.1(2)(b), reference to:
  - (a) ‘to be included in the calculation of the *SCR* as’; and
  - (b) ‘in the calculation thereof’,  
is to be disregarded.
- (3) In Conditions Governing Business 3.2, reference to ‘and *eligible own funds*’ is to be disregarded.
- (4) In Conditions Governing Business 3.6, reference to ‘and the *SCR*’ is to be disregarded.
- (5) In Conditions Governing Business 3.8(2)(b)(ii) a reference to ‘*Technical Provisions*’ is to be interpreted as ‘*Third Country Branches 6*’.
- (6) In Conditions Governing Business 6.1(1)(i), reference to ‘the risk modelling underlying the calculation of the *SCR* and *MCR*’ is to be disregarded.

7.6 In Conditions Governing Business 2.2(3)(b), the reference to ‘Conditions Governing Business 3 to 7’ is to be interpreted with reference to 7.1(3) and the modifications set out in 7.2 and 7.5.

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7.7 ~~A firm must submit the assessments referred to in Conditions Governing Business 3.2 (as modified by 7.2 to 7.6) as part of the information reported annually in accordance with Reporting 2.~~

...

### 9 REPORTING

---

9.1 ~~A third country branch undertaking must fulfil the applicable requirements laid down in the Reporting Part 2.1 to 2.5, as modified by 9.2.~~

9.2 ~~A third country branch undertaking must fulfil the requirements referred to in 9.1 taking account only of matters relevant to the operations effected by the third country branch. [Deleted]~~

...

### 10 THIRD COUNTRY BRANCH UNDERTAKINGS IN DIFFICULTY

---

10.1 ~~A third country branch undertaking must fulfil the requirements laid down in Undertakings in Difficulty 2 to 5 as modified by 10.2.~~

10.2

~~(1) A reference to "SCR" is to be interpreted as a reference to the branch SCR.~~

~~(2) A reference to "MCR" is to be interpreted as a reference to the branch MCR.~~

~~(3) A reference to "technical provisions" is to be interpreted as a reference to the branch technical provisions. [Deleted]~~

[Note: Art. 168 of the Solvency II Directive]

### 11 SEPARATION OF LONG-TERM BUSINESS AND GENERAL BUSINESS

---

11.1

~~(1) A third country insurance undertaking that has a composite third country branch must fulfil the requirements laid down in Composites 2 to 4 and 3, as modified by 11.2.~~

...

11.2

...

~~(2) The reference to "SCR" in Composites 4.6 is to be interpreted as a reference to the branch SCR. [Deleted]~~

~~(3) The notional life MCR, notional non-life MCR, the notional life SCR and notional non-life SCR referred to in the Composites Part of the PRA Rulebook shall be calculated taking account only of the operations effected by the third country branch. [Deleted]~~

~~(4) The reference to 'technical provisions' in Composites 3.3 is to be interpreted as a reference to the provisions in 6.1.~~

[Note: Art. 169 of the Solvency II Directive]

...

### 14 TRANSITIONAL MEASURES [DELETED]

---

14.1 ~~The following provisions in the Transitional Measures Part of the PRA Rulebook apply to third country branch undertakings with the modifications set out in 14.2:~~

~~(1) Transitional Measures 1.2~~

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- ~~(2) Transitional Measures 3.1;~~
- ~~(3) Transitional Measures 3.3;~~
- ~~(4) Transitional Measures 4 to 7; and~~
- ~~(5) Transitional Measures 10 to 12. [Deleted]~~

14.2 The modifications referred to in 14.1 are:

- ~~(1) any modification set out in this Part to any Parts referred to in the Transitional Measures Part of the *PRA* Rulebook;~~
- ~~(2) the modifications set out in 10.2;~~
- ~~(3) any reference to "*pro-Solvency II MCR*" is to be interpreted as a reference to *pro-Solvency II branch MCR*; and~~
- ~~(4) any other necessary modification. [Deleted]~~

...

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## Annex L

### Amendments to the Insurance – Supervised Run Off Part

In this Annex new text is underlined and deleted text is struck through.

Part

# **INSURANCE – SUPERVISED RUN~~–~~OFF**

---

Chapter content

...

5. THIRD COUNTRY BRANCHES [DELETED]

Near-final

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

*material transaction*

means a transaction (when aggregated with any similar transactions) in which:

...

exceeds:

- (a) in the case of a *firm* which carries on *long-term insurance business*, but not *general insurance business*, the sum of ~~€20,000~~£18,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; ~~or~~
- (b) in the case of a *firm* which carries on *general insurance business*, but not *long-term insurance business*, the sum of ~~€20,000~~£18,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or
- (c) in the case of a *firm* which carries on both *long-term insurance business* and *general insurance business*:
  - (i) where the transaction is in connection with the *firm's long-term insurance business*, the sum of ~~€20,000~~£18,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; and
  - (ii) in all other cases, the sum of ~~€20,000~~£18,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*.

...

## 3 CONTENT OF SCHEME OF OPERATIONS

---

3.1 In accordance with 3.2, a ~~scheme of operations~~ scheme of operations must:

- (1) describe the *firm's* run-off strategy;
- (2) include a description of the business underwritten by the *firm*;
- (3) in the case of *third country branch undertakings*, include financial projections (including appropriate scenarios and stress-tests) as follows:
  - (a) a forecast summary profit and loss account in accordance with 3.3; and
  - (b) a forecast summary balance sheet in accordance with 3.4; ~~and~~
  - (c) ~~forecast MCR and SCR at the end of each financial year or part financial year;~~ [deleted]

...

3.2 The information required by 3.1 must:

- (1) in the case of *third country branch undertakings*, reflect the nature and content of the rules relating to ~~eligible own funds~~ the valuation of assets and liabilities applicable to a *firm*;

...

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3.4 The forecast summary balance sheet referred to in 3.1(3)(b) must contain the following information:

...

- (7) ~~technical provisions~~ the provisions referred to in Third Country Branches 6.1, gross and net of *reinsurance* analysed by accounting *class of insurance business* and separately identifying the provision for *linked long-term liabilities*, *unearned premiums*, *unexpired risks* and *equalisation*; and

...

**5 THIRD COUNTRY BRANCHES [DELETED]**

---

5.1 This Chapter applies to ~~third country branch undertakings~~. [Deleted]

5.2 In this Part, reference to "*SCR*", "*MCR*" and "*technical provisions*" is to be interpreted in accordance with ~~Third Country Branches 10.2(1) to (3)~~. [Deleted]

Near-final



## Annex M

### Amendments to the Run-off Operations Part

In this Annex new text is underlined and deleted text is struck through.

#### 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

*material transaction*

means a transaction (when aggregated with any similar transactions) in which:

...

exceeds:

- (a) in the case of a *firm* which carries on *long-term insurance business*, but not *general insurance business*, the sum of ~~€20,000~~ €18,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; ~~or~~
- (b) in the case of a *firm* which carries on *general insurance business*, but not *long-term insurance business*, the sum of ~~€20,000~~ €18,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or
- (c) in the case of a *firm* which carries on both *long-term insurance business* and *general insurance business*:
  - (i) where the transaction is in connection with the *firm's long-term insurance business*, the sum of ~~€20,000~~ €18,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; and
  - (ii) in all other cases, the sum of ~~€20,000~~ €18,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*.

...

#### 3 CONTENT OF A SCHEME OF OPERATIONS

---

3.1 In accordance with 3.2, a *scheme of operations* must:

...

- (3) include financial projections (including appropriate scenarios and stress-tests) as follows:
  - (a) a forecast summary profit and loss account in accordance with 3.3;
  - (b) a forecast summary balance sheet in accordance with 3.4; and
  - (c) for a *firm* other than a *third country branch undertaking*, forecast MCR and SCR at the end of each financial year or part financial year;

...

3.2 The information required by 3.1 must:

- (1) for a *firm* other than a *third country branch undertaking*, reflect the nature and content of the rules relating to *eligible own funds* applicable to a *firm*;
- (1A) for a *third country branch undertaking*, reflect the nature and content of the rules relating to the valuation of assets and liabilities applicable to a *third country branch undertaking*;

...

## **5 THIRD COUNTRY BRANCHES**

---

- 5.1 This Chapter applies to *third country branch undertakings*.
- 5.2 In this Part, reference to “~~SCR~~”, “~~MCR~~” and “~~technical provisions~~” is to be interpreted in accordance with ~~Third Country Branches 10.2(1) to (3)~~ as a reference to the provisions referred to in Third Country Branches 6.1.

Near-final

Annex N

Amendments to the Group Supervision Part

In this Annex, new text is underlined and deleted text is struck through.

Part

## GROUP SUPERVISION

---

### Chapter content

...

8. GROUP SOLVENCY: PROPORTIONAL SHARES

8A. CLASSIFICATION OF OWN-FUND ITEMS OF RELATED SOLVENCY II UNDERTAKINGS AT GROUP LEVEL

8B. CLASSIFICATION OF OWN-FUND ITEMS OF RELATED THIRD COUNTRY INSURANCE UNDERTAKING OR THIRD COUNTRY REINSURANCE UNDERTAKINGS AT GROUP LEVEL

8C. CLASSIFICATION OF OWN-FUND ITEMS OF INSURANCE HOLDING COMPANIES, MIXED FINANCIAL HOLDING COMPANIES, AND ANCILLARY SERVICES UNDERTAKINGS AT GROUP LEVEL

8D. OWN FUNDS ITEMS FREE FROM ENCUMBRANCES

8E. CLASSIFICATION OF OWN-FUND ITEMS OF RESIDUAL RELATED UNDERTAKINGS

...

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

consolidated group SCR

means the group SCR of a group based on consolidated data calculated in accordance with 11.2.

...

group internal model

means an internal model used to calculate the consolidated group SCR, as well as the SCR of Solvency II undertakings in the group.

group supervisor

means (in relation to a group) the authority designated as group supervisor in relation to that group, being the PRA or the Gibraltar Financial Services Commission, as the case may be, in accordance with Solvency II EEA implementing measures implementing Article 247 of the Solvency II Directive or in accordance with regulation 26 of the Solvency 2 Regulations.

...

investment firm

has the meaning given in section 424A of FSMA.

method 1

means the method for calculating group solvency described in 11.1.

method 2

means the method for calculating group solvency described in 12.1.

...

Part 9C rules

has the meaning given in section 143F(1) of FSMA.

...

Solvency II undertaking

means:

- ~~(1) a Gibraltarian insurance undertaking as defined under Regulation 10(2) of The Gibraltar (Miscellaneous Amendments) (EU Exit) Regulations 2019;~~
- ~~(2) a Gibraltarian reinsurance undertaking as defined under Regulation 10(2) of The Gibraltar (Miscellaneous Amendments) (EU Exit) Regulations 2019; or~~
- ~~(3) a UK Solvency II firm.~~

...

third country

means a territory or country other than the United Kingdom or Gibraltar.

third-country insurance undertaking

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means an undertaking, other than a Gibraltarian insurance undertaking, that has its head office outside the UK and if its head office were situated in the UK would:

- (1) need Part 4A permission; and
- (2) satisfy the conditions set out in Insurance General Application 2.2.

### third country reinsurance undertaking

means an undertaking other than a Gibraltarian insurance undertaking that pursues only the business of reinsurance and has its head office outside of the UK and if its head office were situated in the UK would:

- (1) need Part 4A permission; and
- (2) satisfy the conditions set out in Insurance General Application 2.2.

### UK holding company

~~means an insurance holding company or mixed financial holding company that:~~

- ~~(1) is incorporated in the UK; or~~
- ~~(2) has a place of business in the UK.~~

## 2 CASES OF APPLICATION AND SCOPE OF GROUP SUPERVISION

---

...

- 2.3 Where the PRA ~~as group supervisor~~ has granted a waiver or where a supervisory authority which is the group supervisor has decided, in accordance with Solvency II EEA implementing measures implementing Article 214 of the Solvency II Directive, not to include an undertaking in the group supervision referred to in 2.1:

...

## 3 LEVELS

---

...

- 3.2 If the PRA is not the group supervisor and makes a decision to undertake group supervision at national level in accordance with Regulation 13 of the ~~Solvency 2 Regulations~~ then 4 to 19 apply with any necessary changes, subject to the relevant requirements of Regulations 13, 14 and 16 of the ~~Solvency 2 Regulations~~ and the following: group supervision of the ultimate parent undertaking at national level being restricted to those remaining rules of 4 to 19 if the firm is granted a waiver of such other sections as would otherwise apply to a group.
- (1) ~~group supervision of the ultimate parent undertaking at national level is restricted to those remaining rules of 4 to 19 if the firm is granted a waiver of such other sections as would otherwise apply to a group; and~~[deleted]
  - (2) ~~no firm in the group may introduce, in accordance with 15.1(5), an application for permission to subject any subsidiary undertakings in the group to 15.3.~~[deleted]

## 4 GROUP SOLVENCY: GENERAL PROVISIONS

---

...

- 4.5 Special purpose vehicles, to which the participating undertaking or one of its subsidiaries has transferred risk shall be excluded from the calculation of group solvency in any of the following situations:

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- (1) in the case of a UK ISPV, it complies with the requirements set out in [Articles 318 to 327 of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) in the case of a special purpose vehicle in Gibraltar or a third country, it is regulated by a supervisory authority in Gibraltar or a third country, and complies with requirements equivalent to those set out in [Articles 318 to 327 of the Commission Delegated Regulation (Solvency II) 2015/35].

For the purposes of this rule, [Articles 318 to 327 of the Commission Delegated Regulation (Solvency II) 2015/35] shall apply at the level of the group.

## **5 GROUP SOLVENCY: FREQUENCY OF CALCULATIONS**

---

...

- 5.2 The relevant data for, and the results of, the calculations referred to in 4.1 and 4.2 must be submitted to the *group supervisor* by:
  - (1) the *participating Solvency II undertakings* referred to in 4.1, or by any one of them, in the case of the calculations referred to in 4.1; or
  - (2) ~~the UK holding company or such other undertaking in the group as may be determined by the group supervisor in accordance with regulation 15(1)(c) of the Solvency 2 Regulations or Solvency II EEA implementing measures implementing Article 219(1) of the Solvency II Directive~~ in the case of the calculations referred to in 4.2.

...

## **8 GROUP SOLVENCY: PROPORTIONAL SHARES**

---

- 8.1 The calculation of the solvency of a *group* must take account of the proportional share held by the *participating undertaking* in its *related undertakings*.

[Note: Art. 221(1) of the *Solvency II Directive*]

- 8.2 For the purposes of 8.1, the proportional share must comprise either of the following, subject to 8.3:
  - (1) where *method 1* is used, the percentages used for the establishment of the consolidated accounts; or
  - (2) where *method 2* is used, the proportion of the subscribed capital that is held, directly or indirectly, by the *participating undertaking*.

[Note: Art. 221(1) of the *Solvency II Directive*]

- 8.3 Notwithstanding 8.2:
  - (1) where the *related undertaking* is a *subsidiary undertaking* and does not have sufficient *eligible own funds* to cover its *SCR*, the total *solvency deficit* of the *subsidiary undertaking* must be taken into account ~~(or a proportional share of that *solvency deficit*, if the *group supervisor* so determines under regulation 17(4) of the *Solvency 2 Regulations* or *Solvency II EEA implementing measures* implementing Article 221(1) of the *Solvency II Directive*); and~~

[Note: Art. 221(1) of the *Solvency II Directive*]

- (2) ~~the proportional share must be as determined by the *group supervisor* if such a determination is made under regulation 17(2) of the *Solvency 2 Regulations* or *Solvency II EEA implementing measures* implementing Article 221(1) of the *Solvency II Directive* where any of the following applies:~~

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- (a) if there are no capital ties between any of the *undertakings* in the *group*, an *undertaking* in the *group* must be treated as if it is a *participating undertaking* that holds a proportional share of 100% of each other *undertaking* in the *group* for the purposes of 8.1;
- (b) if a *participating undertaking* has a *participation* in another *undertaking* because it effectively exercises a significant influence over that *undertaking*, the proportional share that must be taken account for the purposes of 8.1 must be 100%; or
- (c) if a *participating undertaking* is a *parent undertaking* of another *undertaking* because it effectively exercises a dominant influence over that *undertaking*, the proportional share that must be taken account for the purposes of 8.1 must be 100%.

[Note: Art. 221(2) of the *Solvency II Directive*]

**8A CLASSIFICATION OF OWN-FUND ITEMS OF RELATED SOLVENCY II UNDERTAKINGS AT GROUP LEVEL**

---

8A.1 Where an *own funds* item has been classified into one of the three tiers based on the criteria set out in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35] by a *related Solvency II undertaking* that is included in the calculation of the group solvency, the *own funds* item shall be classified in the same tier at *group level* provided that all of the following additional requirements are met:

- (1) the *Solvency II undertaking* complies with the requirements set out in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) the *own funds* item is free from encumbrances and is not connected with any other transaction, which when considered with the *own funds* item, could result in that *own funds* item not satisfying the requirements set out in Own Funds 3.1 to 3.3 at *group level*.

8A.2 For the purposes of point (1) of 8A.1:

- (1) the term 'Solvency Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean both the *SCR* of the *related undertaking* that has issued the *own funds* item and the *group SCR*;
- (2) the term 'Minimum Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean both the *MCR* of the *undertaking* that has issued the *own funds* item and one of the following minimums:
  - (a) where *method 1* is used, the minimum for the *group SCR* as calculated in accordance with 11.3(2), or
  - (b) where a combination of *method 1* and *method 2* is used, the minimum determined in accordance with 10.7.

8A.3 [For the purposes of this Chapter, the term 'insurance or reinsurance undertaking' in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean both the *participating Solvency II undertakings* and the *Solvency II undertakings* belonging to the *group* that has issued the *own funds* item.]

8A.4 Notwithstanding 8A.1, where a *related Solvency II undertaking* has included in *Tier 2 own funds* an *own funds* item which would qualify for inclusion in *Tier 1 own funds* in accordance with [Article 73(1)(j) of the Commission Delegated Regulation (Solvency II) 2015/35], that classification shall not prohibit the classification of the same *own funds* item in *Tier 1 own funds* at *group level*, provided that the limits set out in [Article 82(3) of the Commission Delegated Regulation (Solvency II) 2015/35] are complied with at *group level*.

**8B CLASSIFICATION OF OWN-FUND ITEMS OF RELATED THIRD COUNTRY INSURANCE UNDERTAKING OR THIRD COUNTRY REINSURANCE UNDERTAKINGS AT GROUP LEVEL**

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8B.1 Where an own funds item has been issued by a related *third country insurance undertaking* or *third country reinsurance undertaking*, the *participating undertaking* shall classify the own funds item using the criteria for classification set out in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35] provided that all of the following additional requirements are met:

- (1) the *third country insurance undertaking* or *third country reinsurance undertaking* complies with the requirements set out in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (2) the own funds item is free from encumbrances and is not connected with any other transaction, which when considered with the own funds item, could result in that own funds item not satisfying the requirements set out in Own Funds 3.1 to 3.3 at *group level*.

8B.2 For the purposes of point (1) of 8B.1:

- (1) the term 'Solvency Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean the *group SCR*;
- (2) the term 'Minimum Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean both the capital requirement, as laid down by the *third country supervisory authority* concerned, of the *undertaking* which has issued the own funds item and one of the following minimums:
  - (a) where *method 1* is used, the minimum for the *group SCR* as calculated in accordance with 11.3(2); or
  - (b) where a combination of *method 1* and *method 2* is used, the minimum determined in accordance with 10.7.

**8C CLASSIFICATION OF OWN-FUND ITEMS OF INSURANCE HOLDING COMPANIES, MIXED FINANCIAL HOLDING COMPANIES, AND ANCILLARY SERVICES UNDERTAKINGS AT GROUP LEVEL**

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8C.1 Where an *own funds* item has been issued by an *insurance holding company*, a *mixed financial holding company*, an *intermediate holding company* or an *ancillary services undertaking* in the *group*, the *own funds* item must be classified using the criteria for classification set out in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35] provided that all of the following requirements are met:

- (1) the *undertaking* complies with the requirements set out in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35];
- (2) the *own funds* item is free from encumbrances and is not connected with any other transaction, which when considered with the *own funds* item, could result in that *own funds* item not satisfying the requirements set out in Own Funds 3.1 to 3.3 at *group level*.

8C.2 For the purposes of point (1) of 8C.1:

- (1) the term 'Solvency Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean the *group SCR*;
- (2) the term 'Minimum Capital Requirement' in [Articles 71, 73 and 77 of the Commission Delegated Regulation (Solvency II) 2015/35] includes both non-compliance with the relevant minimum referred to in 8A.2(2) and the insolvency of the *insurance holding*



company, mixed financial holding company, intermediate holding company or ancillary services undertaking.

8C.3 [For the purposes of this Chapter, the term 'insurance or reinsurance undertaking' in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35] shall mean the *insurance holding company*, the *mixed financial holding company*, the *intermediate holding company* or the *ancillary services undertaking* which has issued the *own funds* item.]

## **8D OWN FUNDS ITEMS FREE FROM ENCUMBRANCES**

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8D.1 For the purposes of 8A.1(2), 8B.1(2) and 8C.1(2), own funds items must not be considered to be free from encumbrances unless the claims relating to those own funds items rank after the claims of all *policyholders* of the *Solvency II undertakings* belonging to the *group*.

## **8E CLASSIFICATION OF OWN-FUND ITEMS OF RESIDUAL RELATED UNDERTAKINGS**

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8E.1 The own funds items of *related undertakings* referred to in 11.1A(6) shall be considered as part of the reconciliation reserve at *group* level.

8E.2 Notwithstanding 8E.1, where practicable and where the own funds items referred to in 8D.1 materially affect the amount of *group own funds* or the group solvency, these own funds items must be classified into one of the three tiers based on the criteria set out in [Title I, Chapter IV, Section 2 of the Commission Delegated Regulation (Solvency II) 2015/35].

## **9 GROUP SOLVENCY: ELIMINATION OF DOUBLE USE OF ELIGIBLE OWN FUNDS AND INTRA-GROUP CREATION OF CAPITAL AND VALUATION**

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...

9.4 Subject to 9.4A and 9.4B, ~~where the PRA considers that~~ certain *own funds eligible for the SCR of a related Solvency II undertaking* (other than those referred to in 9.2 and 9.3) cannot effectively be made available to cover the SCR of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated, those *own funds* must not be included in the calculation of the group solvency of the *group* unless they are, and only in so far as they are, eligible for covering the SCR of the *related undertaking*.

[Note: Art. 222(3) of the *Solvency II Directive*]

9.4A The following items of a *related undertaking* that is a *Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking, insurance holding company or mixed financial holding company* shall be assumed not to be effectively available to cover the *group SCR*:

- (1) *ancillary own funds*;
- (2) *preference shares*, subordinated mutual members account and subordinated liabilities;
- (3) an amount equal to the value of net deferred tax assets; for this purpose, the amount of *deferred tax asset* may be reduced by the amount of the *associated deferred tax liability* provided that those deferred tax assets and associated deferred tax liabilities both arise from the tax law of the *UK, Gibraltar or third country* and the taxation authority of the *UK, Gibraltar* or that *third country* permits such offsetting.

9.4B The following items of a *related undertaking* that is a *Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking, insurance holding company or mixed financial holding company* shall in any case not be considered as effectively available to cover the *group SCR*:

- (1) any minority interest in a *subsidiary* exceeding the contribution of that *subsidiary* to the *group SCR*, where the *subsidiary* is a *Solvency II undertaking, a third country insurance*

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undertaking or third country reinsurance undertaking, an insurance holding company or a mixed financial holding company;

(2) any minority interest in a subsidiary ancillary services undertaking;

(3) any restricted own funds item in ring-fenced funds as referred to in [Article 80 of the Commission Delegated Regulation (Solvency II) 2015/35].

9.4C Where an own funds item of a related undertaking that is a Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking, insurance holding company or mixed financial holding company cannot effectively be made available to cover the group SCR, this own funds item may only be included in the calculation of group solvency up to the contribution of that related undertaking that is a Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking, insurance holding company or mixed financial holding company to the group SCR.

9.4D Where a related undertaking that is a Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking, insurance holding company or mixed financial holding company is included in the consolidated data pursuant to points (1) or (3) of 11.1A, its contribution to the consolidated group SCR shall reflect diversification effects and be calculated as follows:

(1) where the consolidated group SCR is calculated, in relation to that related undertaking, on the basis of the standard formula, the proportional share of the SCR of that related undertaking multiplied by a percentage corresponding to the proportion that the diversified component of the consolidated group SCR, as laid down in 11.2A(1), bears to the sum of the SCR of each of the undertakings included in the calculation of that diversified component of the consolidated group SCR;

(2) where the consolidated group SCR is calculated, in relation to that related undertaking, on the basis of an internal model, the SCR of that related undertaking multiplied by a percentage corresponding to the proportion of the diversification effects at group level that are attributed to that related undertaking, determined by that internal model.

9.4E In each of 9.4D(1) and (2), the sum of the percentages referred to for all the related undertakings that are Solvency II undertakings, insurance holding companies or mixed financial holding companies included in the consolidated calculation must equal 100%.

...

## **10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS**

10.1 Where a Solvency II undertaking has more than one related Solvency II undertaking, the group solvency calculation of the group must be carried out by including each of those related Solvency II undertakings.

[Note: Art. 225 of the Solvency II Directive]

10.1A Unless the book value of the relevant related undertaking has been deducted from the own funds eligible for the group SCR pursuant to 10.6, the calculation of the group solvency shall include all of the following:

(1) the capital requirements for related undertakings which are credit institutions, investment firms or financial institutions and the own funds items of those undertakings calculated in accordance with Part 9C rules, the CRR, the PRA Rulebook or technical standards, as amended from time to time;

(2) the capital requirements for related undertakings which are institutions for occupational retirement provision and the own funds items of those undertakings calculated according to the Occupational Pension Schemes (Regulatory Own Funds) Regulations 2005 or the

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Occupational Pension Schemes (Regulatory Own Funds) Regulations (Northern Ireland) 2005, as amended from time to time;

- (3) the capital requirements for *related undertakings* which are *UCITS management companies* and the own funds of those *undertakings* calculated in accordance with the *FCA Handbook*, as amended from time to time;
- (4) the capital requirements for *related undertakings* which are *alternative investment fund managers* and the own funds of those *undertakings* calculated in accordance with the *FCA Handbook*, as amended from time to time; and
- (5) the notional capital requirements and the own funds items of *related undertakings* which are *non-regulated undertakings carrying out financial activities*, where the notional capital requirement is the capital requirement with which the *related undertaking* would have to comply under the relevant sector rules if the *undertaking* were a *regulated entity*.

...

10.4

...

- (2) If the ~~third country~~*third country* in which that *third country insurance undertaking* or *third country reinsurance undertaking* has its head office makes it subject to authorisation and imposes on it a solvency regime that is assessed to be equivalent under Article 379A of the *delegated act*, the calculation in (1) must take into account, as regards that *undertaking*, the requirement equivalent to the *SCR* and the capital items eligible to satisfy that requirement as laid down by that ~~third country~~*third country*.

[Note: Art. 227 of the *Solvency II Directive*]

...

10.6 Where the information necessary for calculating the group solvency of a *Solvency II undertaking* in a *group*, concerning a ~~*related undertaking with its head office in the UK or Gibraltar or a third country*~~, is not available to the *group supervisor* then:

- (1) the book value of that *related undertaking* in the *participating Solvency II undertaking* must be deducted from the *own funds eligible for the group SCR*; and
- (2) the unrealised gains connected with that *participation* must not be recognised as *own funds eligible for the group SCR*.

[Note: Art. 229 of the *Solvency II Directive*]

10.7 Where the *group* applies a combination of *method 1* and *method 2*, the *consolidated group SCR* calculated for the part of the *group* which is covered by *method 1* shall have a minimum determined in accordance with the requirements set out in 11.3.

## **11 CALCULATION METHODS: METHOD 1**

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...

11.1A Consolidated data for the calculation of group solvency according to *method 1* shall consist of all of the following:

- (1) full consolidation of data of all the *Solvency II undertakings*, *third country insurance undertaking* or *third country reinsurance undertakings*, *insurance holding companies*, *mixed financial holding companies* and *ancillary services undertakings* which are *subsidiaries* of the *parent undertaking*;

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- (2) full consolidation of data of *special purpose vehicles* to which the *participating undertaking* or one of its *subsidiaries* has transferred risk and which are not excluded from the scope of the group solvency calculation pursuant to 4.5:
- (3) proportional consolidation of data of the *Solvency II undertakings*, *third country insurance undertakings* or *third country reinsurance undertakings*, *insurance holding companies*, *mixed financial holding companies* and *ancillary services undertakings* managed by an *undertaking* referred to in point (1) together with one or more *undertakings* not included in point (1), where those *undertakings*' responsibility is limited to the share of the capital they hold:
- (4) on the basis of the adjusted equity method in accordance with [Article 13(3) of the Commission Delegated Regulation (Solvency II) 2015/35], data of all holdings in *related undertakings* that are *Solvency II undertakings*, *third country insurance undertakings* or *third country reinsurance undertakings*, *insurance holding companies*, *mixed financial holding companies* which are not *subsidiaries* of the *parent undertaking* and which are not covered by points (1) and (3):
- (5) the proportional share of the own funds of *related undertakings*, calculated as follows:
  - (a) in relation to *credit institutions*, *investment firms* and *financial institutions*, in accordance with *Part 9C rules*, the *CRR*, the *PRA Rulebook* or technical standards, as amended from time to time;
  - (b) in relation to *alternative investment fund managers*, in accordance with the *FCA Handbook*, as amended from time to time;
  - (c) in relation to *UCITS management companies*, in accordance with the *FCA Handbook*, as amended from time to time;
  - (d) in relation to *institutions for occupational retirement provision*, in accordance with the *Occupational Pension Schemes (Regulatory Own Funds) Regulations 2005* or the *Occupational Pension Schemes (Regulatory Own Funds) Regulations (Northern Ireland) 2005*, as amended from time to time; and
  - (e) according to the own funds items of *non-regulated undertakings carrying out financial activities*; and
- (6) in accordance with [Article 13 of the Commission Delegated Regulation (Solvency II) 2015/35], data of all *related undertakings*, including *ancillary service undertakings*, *collective investment undertakings* and investments packaged as funds, other than those referred to in points (1) to (5) of this rule.

11.1B Notwithstanding point (4) of 11.1A data of *related undertakings* linked by a *common management relationship* shall be included in accordance with points (1), (3), (4), (5) or (6) of 11.1A on the basis of the proportional share as referred to in Chapter 8.

11.1C For the purposes of the calculation of the consolidated *group own funds*, the data referred to in 11.1A and 11.1B shall be net of any *intra-group transaction*.

11.1D The consolidated *best estimate of technical provisions* on the basis of the consolidated data shall be equal to the sum of the following:

- (1) the *best estimate* of the *participating Solvency II undertakings* calculated in accordance with the *Valuation and Technical Provisions Parts*; and
- (2) the proportional share referred to in 8.2(1) of the *best estimate*, calculated in accordance with the *Valuation and Technical Provisions Parts*, of *related undertakings* that are *Solvency II undertakings* and *third country insurance undertakings* or *third country reinsurance undertakings* referred to in 11.1A(1) and (3).

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11.1E For the purposes of 11.1D the best estimates of the participating Solvency II undertaking and of each related undertaking that is a Solvency II undertaking, third country insurance undertaking and third country reinsurance undertaking shall be net of any intra-group transactions. In relation to intra-group reinsurance contracts, all of the following adjustments shall be made:

- (1) the best estimate of the undertaking that accepts risks shall not include the cash flows arising from the obligations of the intra-group reinsurance contracts;
- (2) the undertaking that cedes the risk shall not recognise the amounts recoverable from the intra-group reinsurance contracts.

11.1F For the purposes of 11.1D, the participating Solvency II undertaking may restrict the documentation and the directory of data referred to in [Article 265 of the Commission Delegated Regulation (Solvency II) 2015/35] to the data used in the calculation of the adjustments of the best estimate referred to in 11.1E.

11.1G The consolidated risk margin of technical provisions on the basis of the consolidated data shall be equal to the sum of the following:

- (1) the risk margin of the participating Solvency II undertakings; and
- (2) the proportional share, as referred to in 8.2(1), of the risk margin of the related undertakings that are Solvency II undertakings and third country insurance undertakings or third country reinsurance undertakings referred to in 11.1A(1) and (3).

11.2 The group SCR of a group based on consolidated data (consolidated group SCR) consolidated group SCR must be calculated on the basis of either the standard formula or an approved internal model for which internal model permission has been granted, in a manner consistent with the general principles contained in the SCR Rules.

[Note: Art. 230(2) of the Solvency II Directive]

11.2A The consolidated group SCR shall be calculated as the sum of the following:

- (1) an SCR calculated on the basis of consolidated data as referred to in points (1) to (3) of 11.1A, data of collective investment undertakings and investments packaged as funds which are subsidiaries of the parent undertaking, following the rules laid down in the Solvency Capital Requirement - General Provisions, Solvency Capital Requirement – Internal Models and Solvency Capital Requirement – Standard Formula Parts;
- (2) the proportional share of the SCR of each undertaking referred to in 11.1A(4); for a related undertaking that is a third country insurance undertaking or third country reinsurance undertaking which is not a subsidiary the SCR shall be calculated as if that undertaking had its head office in the UK;
- (3) for undertakings referred to in 11.1A(5), the proportional share of the capital requirements of related undertakings, calculated as follows:
  - (a) in relation to credit institutions, investment firms and financial institutions, in accordance with Part 9C rules, the CRR, the PRA Rulebook or technical standards, as amended from time to time;
  - (b) in relation to alternative investment fund managers, in accordance with the FCA Handbook, as amended from time to time;
  - (c) in relation to UCITS management companies, in accordance with the FCA Handbook, as amended from time to time;
  - (d) in relation to institutions for occupational retirement provision, in accordance with the Occupational Pension Schemes (Regulatory Own Funds) Regulations 2005 or the

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Occupational Pension Schemes (Regulatory Own Funds) Regulations (Northern Ireland) 2005, as amended from time to time; and

- (e) in relation to *non-regulated undertakings carrying out financial activities*, according to the notional capital requirement which is the capital requirement with which the *related undertaking* would have to comply under the relevant sector rules if the *undertaking* were a *regulated entity*;
- (4) for *undertakings* referred to in 11.1A(6), other than *undertakings* covered by point (5) of this rule, the amount determined in accordance with [Article 13, Articles 168 to 171a, Articles 182 to 187 and Article 188 of the Commission Delegated Regulation (Solvency II) 2015/35]; and
- (5) for related *collective investment undertakings* or investments packaged as funds referred to in 11.1A(1)(6) which are not subsidiaries of the *participating Solvency II undertakings*, and to which [Article 84(1) of the Commission Delegated Regulation (Solvency II) 2015/35] is applied at solo level, the amount determined in accordance with [Title I, Chapter V and Article 84(1) of the Commission Delegated Regulation (Solvency II) 2015/35].

11.2B Where the *consolidated group SCR* is calculated, wholly or in part, on the basis of the *standard formula*, the local currency referred to in [the first paragraph of Article 188 of the Commission Delegated Regulation (Solvency II) 2015/35] shall be the currency used for the preparation of the consolidated accounts.

11.2C Notwithstanding 11.2B, where a material amount of the consolidated *technical provisions* or the consolidated *group own funds* is denominated in a currency other than the one used for the preparation of the consolidated accounts, that currency may be considered as the local currency referred to in the [first paragraph of Article 188 of the Commission Delegated Regulation (Solvency II) 2015/35].

11.3

- (1) ~~The consolidated group SCR~~ consolidated group SCR of a *group* must have as a minimum the sum of the following:
- (a) the *MCR* of the *participating Solvency II undertaking*; and
  - (b) the proportional share of the *MCR* of the *related Solvency II undertakings*.
- (2) That minimum must be covered by *eligible own funds* within paragraph 2 of the definition of "*eligible own funds*".
- (3) For the purposes of determining whether those *eligible own funds* qualify to cover the minimum ~~consolidated group SCR~~ consolidated group SCR of a *group*, the principles in 8 to 10 apply with any necessary changes. Undertakings In Difficulty 3 also applies with any necessary changes.

[Note: Art. 230(2) of the *Solvency II Directive*]

11.4 Any application for permission to ~~use a *group internal model* to calculate the consolidated group SCR, as well as the SCR of Solvency II undertakings in the group, on the basis of an *internal model*~~, submitted by a *Solvency II undertaking* and its *related undertakings*, or jointly by the *related Solvency II undertakings* of an *insurance holding company* or a *mixed financial holding company*, must be submitted to the *group supervisor*.

[Note: Art. 231(1) of the *Solvency II Directive*]

11.5 Where an *internal model* is used to calculate the *consolidated group SCR* in accordance with 11.2, the requirements set out in Solvency Capital Requirement – Internal Models 10 shall be complied with by all of the following *undertakings*:

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- (1) the participating undertaking which calculates the consolidated group SCR on the basis of the internal model;
- (2) each related Solvency II undertaking whose business is fully or partly in the scope of the internal model, only in relation to the output of the internal model at group level; and
- (3) each related undertaking that is an insurance holding company or a mixed financial holding company whose business is fully or partly in the scope of the internal model, only in relation to the output of the internal model at group level.

11.6 Where a group internal model is used, in addition to 11.5, the requirements set out in Solvency Capital Requirement – Internal Models 10 shall be complied with by:

- (1) each participating Solvency II undertaking in relation to the output of the internal model at the level of that undertaking; and
- (2) each related Solvency II undertaking which calculates its SCR on the basis of the group internal model, at the level of the undertaking.

11.7 For the purposes of 11.5 and 11.6, a Solvency II undertaking or insurance holding company or mixed financial holding company shall only comply with the requirements set out in Solvency Capital Requirement – Internal Models 10.8 and 10.9 in relation to the parts of the internal model which cover the risks of that undertaking and the risks of its related undertakings.

## **12 CALCULATION METHODS: METHOD 2**

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...

12.6 The aggregated own funds eligible for the group SCR must be adjusted to eliminate the impact of an intra-group transaction where the impact of the intra-group transaction affects the best estimates of the Solvency II undertakings in such way that the amount set out in 12.7 is different depending on whether the intra-group transaction is eliminated in the calculation of that amount or not.

12.7 The amount referred to in 12.6 shall be the sum of the following:

- (1) the best estimate of the participating Solvency II undertakings calculated in accordance with the Valuation and Technical Provisions Parts; and
- (2) the proportional share as referred to in 8.2(2) of the best estimate, calculated in accordance with the Valuation and Technical Provisions Parts for each related undertaking that is Solvency II undertaking, a third country insurance undertaking or a third country reinsurance undertaking.

## **13 CALCULATION METHODS: CAPITAL ADD-ONS**

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...

13.1A The relevant insurance group undertakings must make all reasonable efforts to remedy the residual model limitation that led to the imposition of a capital add-on arising as a result of an internal model residual deviation at the level of the group.

13.1B A relevant insurance group undertaking must be able to, upon request by the PRA as group supervisor, submit a progress report to the PRA as group supervisor setting out the measures taken, and the progress made, to remedy the deficiencies that led to the imposition of a capital add-on arising as a result of an internal model residual deviation, an internal model significant risk profile deviation or a significant system of governance deviation at the level of the group.

...

## 14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

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...

14.2 For the purposes of applying the provisions set out in 14.1, where the parent *insurance holding company* or *mixed financial holding company* has issued subordinated debt or has other *eligible own funds* subject to the limits set out in Own Funds 4.1 and 4.2, Group Supervision 10.3 shall apply.

...

## 16 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

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16.1A For the purposes of identifying significant risk concentrations, *participating Solvency II undertakings, insurance holding companies* or *mixed financial holding companies* shall consider, at least, direct and indirect exposures of *undertakings* in the *group* to all of the following:

- (1) individual counterparties;
- (2) groups of individual but interconnected counterparties, for example *undertakings* within the same corporate *group*;
- (3) specific geographical areas or industry sectors; and
- (4) natural disasters or catastrophes.

16.2

- (1) Where 2.1(1) or 2.1(2) applies, the *relevant insurance group undertakings* or any *UK holding company* must report on a regular basis, and at least annually, to the *group supervisor* all significant ~~intra-group transactions~~ *intra-group transactions* ~~by Solvency II undertakings within a group, including those performed with a natural person with close links to an undertaking in the group.~~
- (2) Where an ~~intra-group transaction~~ *intra-group transaction* falling within (1) is very significant, it must be reported to the *group supervisor* as soon as practicable.

...

16.3 The *relevant insurance group undertakings* or *UK holding company* must consider as significant *intra-group transactions* the *intra-group transactions* that materially influence the solvency or liquidity position of the *group* or one of the *undertakings* involved in these transactions.

16.4 For the purposes of identifying significant *intra-group transactions*, *participating Solvency II undertakings, insurance holding companies* or *mixed financial holding companies* shall consider at least all of the following:

- (1) investments;
- (2) intercompany balances, including loans, receivables and arrangements to centralise the management of assets or cash;
- (3) guarantees and commitments such as letters of credit;
- (4) *derivative* transactions;
- (5) dividends, coupons, and other interest payments;



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(6) reinsurance operations;

(7) provision of services or agreements to share costs; and

(8) purchase, sale or lease of assets.

### 17 RISK MANAGEMENT AND INTERNAL CONTROL

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...

17.3 Reporting 2.1 to ~~2.42.5B~~, 2.13 and the relevant provisions of Chapter 2A of the Reporting Part apply, with any necessary changes, to reporting information on a group to the PRA.

[Note: Art. 254(2) of the *Solvency II Directive*]

...

### 19 GROUP STRUCTURE

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19.1 When 2.1(1) or 2.1(2) applies, *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* must disclose publicly, at the level of the *group*, on an annual basis, the legal structure and the governance and organisational structure, including a description of all *subsidiaries*, *material related undertakings*, and ~~significant branches~~ significant branches belonging to the *group*.

[Note: Art. 256a of the *Solvency II Directive*]

### 20 THIRD COUNTRIES

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20.1 When 2.1(3) applies, 4 to 14, 16 to 19 and External Audit 2 to 4 apply with any necessary changes at the level of the *insurance holding company* or *mixed financial holding company* which does not have its head office in the UK or Gibraltar, *third country insurance undertaking* or *third country reinsurance undertaking* unless:

- (1) ~~subject to 20.2, the third country~~ third country in which that *undertaking* has its head office is assessed to be equivalent under ~~provisions implementing Article 260 of the *Solvency II Directive*, Article 380 and Article 380A of the *delegated act*, or an equivalence direction under paragraph 12(1)(c) of Schedule 1 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019;~~ or
- (2) ~~in the absence of equivalent group supervision referred to in Article 260 of the *Solvency II Directive*, the PRA has specified other methods in accordance with provisions implementing Article 262 of the *Solvency II Directive*, Article 380 and 380A of the *delegated act*, or an equivalence direction under paragraph 12 of Schedule 1 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019.~~ [deleted]

[Note: Art. 262 of the *Solvency II Directive*]

20.2 ~~20.1(1) does not apply where, in the case of temporary equivalence under Article 260(5) of the *Solvency II Directive*, there is a *Solvency II undertaking* in the *group* that has a balance sheet total that exceeds the balance sheet total of the *parent undertaking* situated outside of the UK and Gibraltar.~~ [Deleted]

[Note: Art. 260(7) of the *Solvency II Directive*]

...

### 21 MIXED-ACTIVITY INSURANCE HOLDING COMPANIES

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21.1 ~~16.2 and 17.3~~ to 16.4 apply, with any necessary changes, to *groups* falling within 2.1(4).

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[Note: Art. 265 of the *Solvency II Directive*]

21.2 Reporting 2.1 to 2.5B, 2.13 and the relevant provisions of Chapter 2A of the Reporting Part apply, with any necessary changes, to reporting information on a group falling within 2.1(4) to the PRA.

**22 GROUP OPERATIONAL RESILIENCE**

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...

22.5 Where a *firm* is a member of a *group* covered by 2.1(3), 22.2, 22.3 and 22.4 do not apply if, ~~subject to 22.6,~~ the *third country* in which the *group's parent undertaking* has its head office is assessed to be equivalent under Article 260 of the ~~*Solvency II Directive*~~, Article 380 and 380A of the ~~*delegated act*~~, or an equivalence determination under paragraph 12(1)(c) of Schedule 1 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019.

22.6 ~~22.5 does not apply where, in the case of temporary equivalence under Article 260(5) of the *Solvency II Directive*, there is a *Solvency II undertaking* in the *group* that has a balance sheet total that exceeds the balance sheet total of the *parent undertaking* situated outside of the *UK* and *Gibraltar*. [Deleted]~~

Near-final