This set of Frequently Asked Questions (FAQs) is relevant to parties who wish to apply for authorisation for an Insurance Special Purpose Vehicle (ISPV). It is designed to help applicants and prospective applicants understand the PRA’s approach to the authorisation and supervision of ISPVs.

The FAQs have been organised into the following categories:

1. Getting started
2. Pre-application
3. Application
4. Assessment
5. Authorisation
6. Post-authorisation
7. Specific transactional features

We will monitor questions that we receive and update this FAQs as needed, and will include an update on the ISPV webpage.

Note: These FAQs do not introduce new requirements or replace any of the other documentation found on the ISPV webpage. All references made to ISPVs in these FAQs are equally applicable to Multi-arrangement Insurance Special Purpose Vehicles (MISPVs), unless otherwise specified. A glossary of terms used is included in the Annex on the final page.

SECTION 1 – GETTING STARTED

1. What information should prospective applicants read prior to considering submitting an ISPV application?

We encourage prospective applicants to read the PRA’s Supervisory Statement 8/17 (SS8/17), along with all the other documentation found on the ISPV webpage, before submitting an application.

2. What are the requirements that need to be met to be authorised as an ISPV?

A full list of the relevant legal and policy material in relation to ISPVs is set out in Chapter 1 of SS8/17. The applicant must demonstrate it meets all the conditions for authorisation listed in Article 318 of the Delegated Regulation. Particular emphasis is placed on compliance with Articles 319-321 of the Delegated Regulation, which relate to the requirements on the ISPV to be ‘fully funded’, ensure ‘effective risk transfer’ and ensure subordination of the ‘rights of the providers of debt or financing mechanisms’. Additionally, an MISPV must also demonstrate compliance with Article 7 of the Implementing Regulation.

In SS8/17 and the FCA Statement “Authorising and supervising insurance special purpose vehicles” the PRA and FCA, respectively, outline their approach and expectations to authorising ISPVs, including the relevant parts of the PRA Rulebook and FCA Handbook, respectively, which must be met. Further, the ISPV must also meet the relevant provisions in the Risk Transformation Regulations 2017 (RTR), and FSMA, including the PRA and FCA Threshold Conditions. Once authorised, the ISPV is responsible for ensuring its ongoing compliance with the requirements, and more detail on the ongoing supervisory approach and reporting requirements are outlined in Questions 36 and 37.

3. What are the responsibilities of the PRA and the FCA in authorising an ISPV and how should an applicant expect to engage with both regulators?

The PRA and the FCA have joint responsibility for the authorisation of ISPVs. Although both regulators are involved, there is a single administrative process with just one set of forms (see ISPV webpage) for making an application. The PRA will lead and coordinate the process, and applicants are likely to have frequent joint communications (face-to-face or on the phone via conference calls).

1 See The PRA’s and FCA’s Threshold Conditions factsheet - https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/new-insurer/thresholdconditionsfactsheet
with both regulators to discuss the progress of the application and to ensure any questions can be discussed and hopefully addressed in a timely manner.

The PRA will make the final decision on the ISPV application. However, we can only grant approval for an ISPV with the FCA’s consent.

The PRA’s key focus is on assessing the application against the PRA Threshold Conditions\textsuperscript{2}, and the Solvency II requirements relevant to ISPVs, while the FCA’s key focus is on assessing the application against the FCA Threshold Conditions\textsuperscript{3}, including any outsourcing arrangements. The FCA are also responsible for registering the applicant as a PCC upon being granted approval as an MISPV.

Once authorised to perform the regulated activity of ‘insurance risk transformation’ - as set out in Regulation 13A of the RAO – the ISPV will be supervised on an ongoing basis by the PRA and the FCA (see Question 36).

4. Who can apply for an ISPV?

Parties wishing to operate in the United Kingdom as an ISPV need to apply to the PRA for a ‘Part 4A Permission’ to perform the regulated activity of ‘insurance risk transformation’ as defined in Regulation 13A of the RAO.

In the case of a standalone ISPV the entity may not have been established at the point of submitting an application, and in the case of an MISPV, the PCC entity may only be established upon authorisation. Therefore, pending the ISPV’s incorporation, the sponsor of the proposed ISPV may apply on its behalf. In the ISPV Application Form we ask the applicant to indicate the capacity in which it is acting and why the proposed ISPV cannot execute the application on its own behalf.

Therefore, references in these FAQs to an ‘applicant’ can include references to the person or firm applying on behalf of the proposed ISPV, where an entity has not yet been established. Where an entity has already been established the applicant may be the entity, or a person or firm applying on its behalf.

5. How should a prospective applicant initiate contact with the PRA to discuss its ISPV project/application?

Please e-mail ISPVMailbox@bankofengland.co.uk with any queries on matters not included on the ISPV webpage and within these FAQs.

6. What ILS instruments or insurance risks are compatible with the UK ILS regime?

The UK ILS regime is not restricted to certain types of instruments or to the transfer of certain types of insurance risk. However, all ISPVs must meet the legal requirements for authorisation (see Question 2). A variety of different applications have been submitted to date, and the regime has demonstrated it is compatible with a range of ILS instruments such as cat bonds, cat bonds “light”, sidecars, and collateralised reinsurance, and range of underlying insurance risks.

7. How many ISPVs have been authorised by the PRA to-date?

For details on authorised ISPVs see the Financial Services Register, which is available online here.

8. Is there a required naming convention for ISPVs?

The use of certain sensitive words such as “insurance”, “insurer”, “insured”, “reinsurance”, “reinsurer”, “reinsured” in registered company names is controlled by legislation in order to prevent anyone being misled. For example, an ISPV cannot include the term “reinsurer” in its name as it is not authorised as a reinsurer, nor can it use an abbreviation of this term, e.g. “re”.

For standalone ISPVs, further information on sensitive company names can be found on the FCA’s website here. For PCCs, further information on sensitive company names can be found in Regulation 17 of the RTR.

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\textsuperscript{2} See footnote 1.

\textsuperscript{3} See footnote 1
Parties may also wish to check the Financial Services Register (here) for details on ISPVs that have already been authorised.

SECTION 2 – PRE-APPLICATION

9. What is the purpose and benefit of a pre-application stage?

An application may be submitted at any time, but the PRA also offers the possibility of a ‘pre-application stage’ prior to formal submission. This is not a mandatory part of the authorisation process, but in our experience it can make the review process quicker and simpler once a formal application is subsequently submitted. One or more meetings might take place with the prospective applicant during this pre-application phase.

The aim of a pre-application phase is to:

- Allow a preliminary discussion of the proposal, including any plans for future transactions in the case of an MISPV;
- Ensure a clear understanding of the application process and requirements;
- Identify as soon as possible any key issues or novel proposals which might form priority areas for review;
- Understand the target timeframes for approval; and
- Discuss and agree practical working arrangements between the applicant and the regulators during the application stage.

10. How should parties prepare to get the most value from a pre-application meeting?

In advance of the initial pre-application meeting, it is helpful if the prospective applicant can provide us with high-level summary information of any proposed transaction connected to the application, for example, a term sheet. This will help ensure we can come to the meeting prepared and make it as efficient and helpful as possible.

Additionally, where possible, it is helpful if prospective applicants can provide, or at least be ready to discuss their initial views on, the following aspects of the application:

- **Timetable** – an overview and timeframe of the target plan to establishing the new ISPV (this is particularly important for applications that are complex or novel, or that have ambitious target dates for final authorisation).
- **Regulated activities** – the regulated activities and any unregulated business that the ISPV intends to carry on.
- **Documentation** – details of what documentation will be available and when it is likely to be ready for submission (see Question 15).
- **Risk transfer and funding** – an overview of the proposed risk transfer, funding structure, subordination clauses and investment strategy of the transaction, and how the ISPV will meet the Solvency II requirements relating to fully funded, effective risk transfer, and subordination as outlined in Articles 319-321 of the Delegated Regulation.
- **Governance** – the proposed structure of the Board and Senior Management (including SMR holders), and the proposed management and governance arrangements.
- **Company structure** – the ownership structure of the ISPV, particularly where this is non-standard, for example, if the intention is to consolidate the ISPV into a group.
- **Additional features** – any additional features within the proposed structure which might require particular attention e.g. collateral rollovers, tranching, inter-cell arrangements, transaction documentation governed by foreign law, etc.
- **Scope of Permission** – for an MISPV, details of any known future planned transactions (see Question 20).

11. Who is likely to attend a pre-application meeting?

Attendees at pre-application meetings are likely to include representatives from:

- **PRA Supervision**, who will be the project lead and will be reviewing the application, with a particular focus on the assessment of the requirements relating to fully funded, effective risk transfer, and subordination as outlined in Articles 319-321 of the Delegated Regulation.
- **PRA Authorisations**, who deal with the administration of the application, process the SMR applications and assess the fit and proper requirements have been met for the shareholders and key individuals.
- **FCA**, whose consent is required to authorise an application.

Attendees would include the representatives from the prospective applicant, and, where applicable, any professional advisers who have been and/or are likely to be heavily involved in preparing the application.

**SECTION 3 – APPLICATION**

12. **What is the typical timeframe for authorising an ISPV?**

The exact timeframe varies from application to application, but we endeavour to reach a decision as quickly as possible. The official statutory deadline of 6 months for a complete application is explained in paragraph 2.19 of SS8/17. However the statement makes clear that in practice, a decision could be (and in many previous cases has been) reached within a much shorter timeframe (e.g. 6-8 weeks), where applications represent a relatively straightforward proposal and are supported by good quality documentation (see Question 14). Effective use of the pre-application stage can also assist the overall timeframe. Applications which are novel or more complex may require additional review time and it is helpful if applicants can highlight any such features early in the process.

13. **What are the timeframes to approval for repeat transactions?**

Where an application is sufficiently similar to a previous transaction that has been authorised, to the extent it is the same cedant and substantially the same transaction documentation, we will leverage as far as possible any work done in the previous application. We would expect to discuss with the applicant the level of changes they envisage so we can focus our review as much as possible on the key changes. Every application for a repeat transaction will still be considered on its own merits and authorisation would not be guaranteed.

14. **What can an applicant do to ensure they submit a good quality application?**

To help submit a good quality application, applicants and/or their advisers should familiarise themselves with the requirements of the UK ISPV regime (as outlined in Question 2), in particular the Solvency II requirements, and be able to demonstrate compliance against these. Applicants should read the information provided on the ISPV webpage to familiarise itself with the regime. Applicants should provide sufficient supporting documentation with their application to enable the PRA and FCA to make an assessment of their compliance with the relevant requirements, including where applicants wish to have flexibility for future transactions as described in Question 20.

As outlined in Question 9, we offer a pre-application stage. Engaging early with the PRA can help to lead to a better quality application being submitted, and a quicker and smoother decision-making process. The pre-application stage is not mandatory and does not have a set timetable - its use is entirely down to the party applying.

15. **Do the regulators accept draft documentation being submitted as part of an ISPV application?**

We appreciate that, due to the transactional nature of ILS it may be the case that (1) final documentation or (2) the complete set of documentation will not always be available at the start of the application stage. Applicants should discuss this with the PRA to explain what is likely to be available and how this might affect the timing of the application.

Where final documentation is not available at the point of application, the PRA is willing to consider receiving draft documentation provided that it is at an advanced stage and only relatively minor amendments are expected prior to the final documentation being submitted. Substantive changes following submission of the application are likely to extend the time needed for assessment. The PRA understands that the transaction documents are legally executed after approval, and therefore some specific commercial terms may remain outstanding until the transaction closes. However, the applicant will need to identify where this is the case in the documentation prior to approval being granted.
In the cases where the complete set of documentation is not available at the point of application, we would anticipate discussing this at the pre-application stage to understand which documents the PRA can expect to receive at the point of application, and which at an agreed later date. Further details on the documentation requirements can be found in paragraphs 2.9 to 2.12 of SS8/17.

16. What are the application fees, and ongoing annual fees for ISPVs? How are they paid?

The full application fee for authorisation of ISPVs is made up of both PRA and FCA application fees. The current amounts can be found on the ISPV Application Form, or separately in the relevant parts of the PRA Rulebook and FCA Handbook. Also, as specified on the Application Form for Registration of Protected Cell Companies, an additional fee applies to MISPVs when registering for a PCC. The applicant must pay the full application fee by BACS payment or cheque.

Once an ISPV is authorised, there are ongoing annual fees for ISPVs made up of both PRA and FCA fees. The FCA is currently the collection agent and will calculate, invoice and collect these annual fees. Further information, including payment methods, can be found on the FCA website.

Where an ISPV wishes to apply for a Variation of Permission (see Question 20), as specified on the ISPV VOP Application Form, it must pay an administration fee when submitting this form. Further information on this fee is outlined on the FCA website.

All PRA and FCA fees are consulted upon annually, so please check the relevant sections of the PRA Rulebook and FCA Handbook. The forms will be updated with the most recent application fee amounts.

17. Where should applicants submit the ISPV Application Form?

As outlined in the ISPV Application Form found on the ISPV webpage, applicants may submit an electronic copy of the application to the PRA at the following mailbox: ISPVMailbox@bankofengland.co.uk. The PRA will then share this, and any follow-up documentation, with the FCA.

18. What communication from the PRA can an applicant expect once it has submitted its application?

The PRA will acknowledge receipt of the application and will be in touch regularly with the applicant during the assessment of the application to explain what progress is being made. If we have any concerns or questions, these will be communicated to the applicant at the earliest opportunity.

We are aware that ILS transactions are typically time sensitive and, therefore, offer applicants the possibility to have regular calls with the assessment team to discuss progress and address questions.

SECTION 4 – ASSESSMENT

19. How does the PRA assess the requirement that the ISPV is fully funded at all times?

As outlined in Article 319 of the Delegated Regulation, the contractual arrangements relating to the transfer of risk from the cedant to the ISPV must at all times be fully funded in accordance with Article 326 of the Delegated Regulation. More details on the PRA’s expectations in respect of each of these areas are included in paragraphs 3.12 to 3.23 of SS8/17. Key requirements include:

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4 See Fees Part of the PRA Rulebook - http://www.prarulebook.co.uk/rulebook/Content/Part/320313
6 See also FEES 3.2 Obligation to pay fees section of the FCA Handbook - https://www.handbook.fca.org.uk/handbook/FEES/3/Annex1.html
7 See Fees Part of the PRA Rulebook where a minimum periodic fee and flat fee apply for ISPVs - http://www.prarulebook.co.uk/rulebook/Content/Part/320313
• The ISPV must value its assets in accordance with Solvency II (Article 326(1)(a) of the Delegated Regulation);
• The ISPV must, at all times, have assets the value of which is equal to or exceeds its aggregate maximum risk exposure (AMRE) and that it is able to pay the amounts it is liable for as they fall due (Article 326(1)(b) of the Delegated Regulation);
• The assets used to meet the AMRE must be fully paid-in (Article 326(1)(c) of the Delegated Regulation);
• The AMRE must be an amount that is determinable at any given point in time, to the extent that it may increase/decrease over time as, for example, the ISPV receives premium from the cedant or the ISPV pays losses to the cedant; and
• Expenses must be correctly allocated (Article 1(44) of the Delegated Regulation).

Further questions and answers relating to specific potential transactional features are included in Section 7.

Scope of Permission

20. What is the Scope of Permission (SOP)?

The SOP is a document issued by the PRA to the applicant at the point of authorisation. The document defines:

- the regulated activity/activities that the ISPV or MISPV may carry on; and
- any limitations attaching to it.

Under Regulation 7 of the RTR, the PRA is required to limit the scope of regulated activities which an ISPV may carry on, and the SOP is the way in which this is achieved. It is a key component in authorisation because it defines the terms within which the ISPV may carry on its regulated activity/activities. It also allows the PRA to discharge its supervisory responsibilities of assessing compliance with the relevant requirements (see Question 2).

Consistent with Part 4A of FSMA, an ISPV may not act outside its SOP. This means that in the case of an MISPV, future transactions must fall within the SOP.

Where an ISPV wishes to perform activities that are outside its current SOP, it can apply to the PRA for approval for the SOP to be updated. An ISPV should do this by submitting an application for a variation of permission (VOP) using the ISPV VOP Application Form (see the ISPV webpage). If this is approved, an updated SOP will be issued. The timetable for approval is likely to vary depending on the complexity of the changes proposed.

Further details can be found in the following questions of this FAQs, and in paragraphs 2.13 to 2.18 of SS8/17.

21. When applying for an ISPV, what are the PRA’s expectations on applicants in relation to the SOP?

As outlined above (see Question 20), a SOP is used as a standard part of the approval process for both standalone ISPVs and MISPVs. It defines the regulated activities the ISPV can carry on, and any limitations attaching to it.

The SOP will be based on the documents received from the applicant during the application stage. It is important therefore that these are of good quality and clearly demonstrate that the Solvency II requirements are met. The contents of the SOP will be agreed on a case-by-case basis between the applicant and the PRA, taking into account the components listed in the Appendix of SS8/17. The PRA may deem it appropriate to include any other information submitted as part of this application within the SOP.

In the case of a standalone ISPV, which may only accept a single risk transfer (see Question 45), it is likely that the applicant will not require much flexibility in its SOP.

However, in the case of an MISPV, the SOP provides applicants with a flexible tool to allow the possibility of seeking authorisation in advance for future MISPV transaction structures so that future transactions may be executed without further regulatory approval. We encourage MISPV applicants to
consider at an early stage how much flexibility they would like to retain in the structures used for future transactions, and to discuss this with us. There is a trade-off for applicants to consider here:

- The PRA can grant approval upfront for different potential future structures, provided that applicants can clearly demonstrate at the outset how each of these structures would comply with the relevant requirements (see Question 2). This will allow greater future flexibility in the SOP but might require more documentation and review work upfront to demonstrate that the relevant requirements are met for each of the different features for which the applicant would like approval.

- Alternatively, the PRA can approve a narrower range of features up front, resulting in a more limited SOP at the outset. This is likely to streamline the review work involved as part of the initial application. Applicants can then choose to broaden the range of features for which they have approval at a later stage, by requesting PRA approval for an updated SOP.

We are flexible on which approach applicants wish to adopt, and, as mentioned, it is a key topic that we would envisage being discussed at the pre-application stage.

22. How should an applicant present the flexibility it desires in the SOP, to the PRA and FCA for assessment? And what level of flexibility can an ISPV have included in its SOP?

Where an applicant wants flexibility over particular features in future transactions, a common approach is for them to identify in the underlying transaction documentation submitted as part of its application, the specific contractual terms where it wishes to have flexibility. The applicant would then demonstrate how this flexibility would comply with the relevant requirements in all circumstances. If the PRA is satisfied that the requirements would be met in all circumstances, the SOP would then permit structures to be used without further approval as long they remained in line with the specified transaction documentation submitted. Further amendments may be sought at a later stage by seeking approval for an updated SOP.

Other approaches are also possible. For example, for some service providers, the SOP may be drafted to allow flexibility for the MISPV to make amendments to the corresponding service agreements without further approval. The MISPV would then need to satisfy itself that such amendments would not affect compliance with the requirements, or affect the provision or scope of the services provided by those service agreements.

The above are examples of approaches which the PRA has found to have worked in previous cases. However, the PRA is willing to consider other approaches on a case-by-case basis. We would expect to discuss these matters at the pre-application stage, where used.

23. Can an ISPV change the identity of a service provider without requiring approval from the PRA or FCA?

The SOP may allow the identity of some service providers to be changed without requiring further approval. The PRA and FCA will need to consider this on a case-by-case basis. Any changes to the identity of the controller/owner of the ISPV, e.g. Share Trustee and Corporate Services Provider, or outsourced manager, e.g. Insurance Manager, will require PRA and/or FCA approval.

24. What if an applicant only knows how its first transaction will be structured, but does not want to be constrained to a standalone ISPV and would like the flexibility to execute future transactions within an MISPV instead?

If this is the case, applicants may wish to consider submitting an application for an MISPV and to agree a SOP limited to the first transaction. MISPVs may then return to the PRA at a later date to seek approval to broaden the SOP to execute future transactions accordingly.

25. Can an applicant apply for an MISPV authorisation if it does not currently have a “live” transaction?

The PRA is willing to consider authorising an MISPV without a current “live” transaction provided that sufficient detail (e.g. template transaction documentation) is provided in an application so that we can assess it against the relevant requirements (see Question 2). This is reflected in paragraph 2.11 of SS8/17, and also in Article 7(3) of the Implementing Regulation.
Governance

26. What are the fit and proper requirements for shareholders of the ISPV?

A fit and proper assessment of shareholders is required where they meet the definition of a ‘qualifying holding’. This is defined in Article 13(21) of the Solvency II Directive as a direct or indirect holding in an undertaking which represents 10% or more of the capital, or 10% or more of the voting rights, or which makes it possible to exercise a significant influence over the management of the undertaking.

Paragraphs 3.8 to 3.11 of SS8/17 and the ISPV Application Form outline the fit and proper requirements on qualifying holdings, and the specific information to be provided by the applicant.

27. What are the fit and proper requirements for individuals ‘effectively running’ an ISPV?

What are the Senior Management Function (SMF) requirements for ISPVs?

All individuals who are ‘effectively running’ the ISPV must satisfy the fit and proper criteria set out in the Insurance – Fitness and Propriety Part of the PRA Rulebook. ‘Effectively running’ is described in paragraph 2.32 of SS35/15 ‘Strengthening individual accountability in insurance’ and in Solvency II EIOPA guidelines. It is normally expected to include all the members of the governing body as well as the senior management of the ISPV who are responsible for key decision making and for implementing the strategies and policies approved by the governing body. These individuals can be those carrying out both Senior Management Function (SMF) roles and non-SMF roles. The PRA requires applicants to nominate fit and proper individuals for approval by the PRA to occupy the following SMF roles for each ISPV: Chief Executive (SMF1); Chief Finance (SMF2); and Chair of the Board (SMF9). Further information can be found on the ISPV webpage.

28. Can an individual perform more than one of the mandatory SMF roles of an ISPV?

As described in paragraph 3.3 of SS8/17, the PRA takes a case-by-case approach to SMF applications. Provided an individual has the relevant skills and experience, it may be possible for them to perform more than one of the SMF roles.

29. Can a third-party outsourced service provider perform one of the mandatory SMF roles of an ISPV?

As described in paragraph 3.3 of SS8/17, provided that there are no conflicts of interest; a SMF role could be held by a suitably senior employee or director of a third-party (such as an outsourced service provider).

30. Can an ISPV use outsourced service providers?

Yes, an ISPV may choose to outsource the provision of services to an outsourced service provider. However, as a regulated firm, the ISPV must retain full accountability for discharging its regulatory responsibilities. Its regulatory responsibilities may not be delegated to an outsourced service provider.

If the ISPV chooses to use an outsourced service provider for the delivery of critical services, it must comply with the General Outsourcing Requirements (SYSC 8.1 of the FCA Handbook and the Outsourcing Part of PRA Rulebook). The overall aim of these regulatory obligations is to ensure that operational risk is appropriately managed and the use of outsourced service providers does not impair the ability of the regulators to regulate the ISPV.

SECTION 5 – AUTHORISATION

31. How will the PRA communicate whether an application has been successful or not?

During the assessment stage we will discuss with the applicant the progress of our review and explain the date by which we expect to be able to make a decision. Once we have made a decision we will inform the applicant as soon as possible, via e-mail or phone call.

32. Once authorised, will details of the ISPV authorisation be in the public domain?

Upon authorisation certain basic information about the ISPV will be uploaded to the Financial Services Register, and therefore these details will be in the public domain. The details uploaded include information on the ISPVs permitted regulated activities, approved persons, e.g. SMF directors,
and other basic details. It may take up to one working day for this information to show on the register. Note that the SOP is a not a public document and is therefore not uploaded.

The PRA is asked occasionally how many ISPVs it has authorised. Since the Financial Services Register is in the public domain, we will disclose the number of ISPVs which appear on the Financial Services Register.

33. Can the applicant begin to market its business prior to ISPV authorisation being granted?

An applicant may be able to market a transaction prior to being granted approval, as long as in doing so it does not breach the general prohibition (section 19 of FSMA), and as long as the applicant makes clear in its discussions that authorisation has not yet been obtained. It is for the applicant to assess whether marketing would constitute a breach of the general prohibition. In addition, the applicant must be fully aware of the risk that there is no guarantee that authorisation may be granted.

SECTION 6 – POST-AUTHORISATION

34. If an ISPV wants to widen its scope of permission, how long does it take for the PRA to approve this?

As outlined in Question 20, where an ISPV wishes to widen its SOP, it must apply to the PRA using the ISPV VOP Application Form (see the ISPV webpage for a link to the relevant form).

As with the initial application for authorisation, the quality of the submission and complexity of the proposed amendment is likely to impact the time required by the PRA to review the application, as will the level of pre-application engagement, where possible. Straightforward changes may be processed quickly, whereas significant changes may take longer and require a fuller reassessment of the relevant authorisation criteria. We encourage ISPVs to speak to the PRA to discuss their request.

35. How does the 'new risk post-notification process' work for an MISPV?

As outlined in Question 20 the SOP determines the scope of activities which the ISPV may perform in the future without further approval. In the case of an MISPV, once authorised, it is able to assume new risks without needing to return to the PRA for pre-approval, as long as these remain within the terms of the SOP. Within 5 working days of assuming a new risk the MISPV must submit to the PRA an MISPV New Risk Assumption Form. More detail of the notification process can be found in paragraph 2.27 of SS8/17, and the MISPV New Risk Assumption Form can be found on the ISPV webpage.

36. What is the PRA’s approach to supervising ISPVs?

Ongoing PRA supervision for ISPVs is risk-based and takes into account the particular nature of ISPVs compared to traditional insurance firms. A key source of information is the qualitative and quantitative reports submitted by ISPVs as part of the annual reporting cycle (see Question 37). For more information on the PRA’s approach to supervising ISPVs see paragraph 4.1 of SS8/17.

37. What are the ongoing supervisory reporting requirements for ISPVs?

ISPVs are required to provide both a qualitative and quantitative report annually to the PRA. The latter requires the ISPV completing the EIOPA templates designed specifically for ISPVs. In line with Article 325(5) of the Delegated Regulation, ISPVs are also required to notify the regulators immediately of any changes that could affect its compliance with Articles 318-324 and 326 of the Delegated Regulation, including the fully funded requirement. For more information on the reporting requirements see paragraphs 4.3 and 4.4 of SS8/17.

The EIOPA templates described above can be found on the EIOPA webpage in the specific link labelled ‘Solvency 2 Annotated Templates’. The relevant ISPV templates are labelled in line with Annex II of the Implementing Regulation.

The ISPV must submit these templates using the Bank of England Electronic Data Submission (BEEDS) portal. The ISPV will be provided details of its BEEDS account at authorisation, however, for any queries please contact the BEEDS team at the following mailbox: BEEDSQueries@bankofengland.co.uk.
SECTION 7 – SPECIFIC TRANSACTIONAL FEATURES

38. Are there any particular considerations for MISPVs in relation to the fully funded requirement?

In addition to those requirements listed in Question 19, an applicant applying for an MISPV must also demonstrate that the way in which the MISPV accounts and allocates assets to each cell does not contravene Article 7 of the Implementing Regulation (as outlined in paragraph 3.17 of SS8/17). This should include details of how the AMRE of each “individual contractual arrangement” – which may include expense liabilities as per Question 19 – is met by the assets allocated to it.

39. Does the PRA permit the Aggregate Maximum Risk Exposure (AMRE) to increase over the life of the transaction?

If the applicant wishes the AMRE to vary throughout the life of the risk transfer; the underlying transaction documentation must clearly outline how this will take effect. The risk transfer must remain effective in line with Article 320 of the Delegated Regulation, and the ISPV must be fully funded at all times in line with Article 319 of the Delegated Regulation, (see Question 19). More information on this can be found in paragraphs 3.16, 3.18 and 3.19 of SS8/17.

40. Does the PRA permit future premiums to be recognised as part of the AMRE?

Where an ISPV proposes to use expected future payments from the cedant to the ISPV (e.g. future premium) to meet the AMRE, as outlined in paragraph 3.15 of SS8/17, such future payments may only be recognised if the criteria outlined in Article 326(4) of the Delegated Regulation are met.

41. Are limited recourse clauses permitted?

Solvency II does not prohibit the use of limited recourse clauses. However, we do not expect limited recourse clauses to undermine the effective risk transfer requirement (Article 320 of the Delegated Regulation) nor for them to be relied upon as an alternative to:

- having assets to at least the value of the AMRE at all times as set out in Article 326(1)(b) of the Delegated Regulation;
- having a sound risk management framework in accordance with Article 324 of the Delegated Regulation (that includes policies to mitigate and manage the risk that the limited recourse clause is called upon); or
- having a sound investment strategy in accordance with Article 327 of the Delegated Regulation.

Provided that these conditions are met, we consider that limited recourse clauses may be used as a means of mitigating the risk that, from a contractual perspective, the ISPV breaches the fully funded requirement. See paragraphs 3.20 and 3.21 of SS8/17 for further information.

42. Can contingent assets be used as assets to meet the AMRE?

Off-balance sheet support, such as contingent assets, may be considered relevant at certain times to prevent the ISPV from breaching the fully funded requirement due to asset deterioration (for example, as an alternative to limited recourse clauses). However, contingent assets should not be considered as a substitute for paid in funds nor as a justification to underfund the risk transfer.

Article 326(1)(c) of the Delegated Regulation requires that the proceeds of the ISPV’s debt issuance or other funding mechanism are fully paid-in. Accordingly, ISPVs should not count legally binding commitments - such as those that could be treated as ancillary own funds by insurance or reinsurance undertakings under Article 89 of the Solvency II Directive - as assets for the purposes of satisfying the fully funded requirement.

For further information, see paragraphs 3.14 and 3.22 of SS8/17.

43. Does the PRA allow “collateral rollovers”?

As outlined in Question 19 and paragraphs 3.12 to 3.23 of SS8/17 there are a number of key criteria which must be met in order for an ISPV to meet the fully funded requirement. When considering collateral rollovers applicants may wish to consider the requirements that:
• the proceeds of the ISPV’s debt issuance or other financing mechanism must be valued in accordance with Solvency II (Article 326(1)(a) of the Delegated Regulation);
• the proceeds of the ISPV’s debt issuance or other financing mechanism are fully paid-in (Article 326(1)(c) of the Delegated Regulation), albeit additional funding may be paid-in at a later date and a stepped increase/decrease of the AMRE occur at this time, as per Question 39; and,
• the ISPV has assets equal to or exceeding the value of the AMRE at all times (Article 326(1)(b) of the Delegated Regulation).

To this end, the same assets may not be used to meet the AMRE of more than one contractual arrangement at a time as this would contravene the ‘fully funded’ requirement.

It is our understanding that there are market practices around renewal dates relating to the rollover of funds used to meet the AMRE of one year’s exposures to the next year’s exposures. There are a number of ways in which such structures could be constructed to meet the fully funded requirements. As with other structural issues, we stand ready to discuss proposals once prospective applicants have considered how they think they meet these key principles.

44. Does the PRA accept different types of funding arrangements/structures, for example, can funds be held outside of the UK, or governed by a reinsurance trust agreement or a collateral control agreement/deed of charge construct?

The PRA takes a case-by-case approach, and is prepared to consider structures where the applicant believes it is able to demonstrate compliance with Article 319 of the Delegated Regulation, and any other relevant requirements (see Question 2).

45. Can an ISPV (or a single cell within an MISPV) take on more than one reinsurance contract?

A standalone ISPV may not assume risk from multiple cedants, nor can it assume risk through multiple risk transfer contracts from a single cedant, it can only assume risk from a single cedant through a single contractual arrangement. An MISPV must be established where multiple cedants and/or multiple risk transfer contracts are being considered. Similarly a single cell within an MISPV may only assume risk from a single cedant through a single contractual arrangement. This is explained further in paragraph 1.3 of SS8/17 and Article 2 of the Implementing Regulation.

Note, however, that multiple noteholder or subscription agreements may be executed between each standalone ISPV or a cell and its investors.

46. Can a fronting reinsurer be used, where the fronter will be the entity facing the ISPV?

There is no reason in principle why a fronting reinsurer cannot be used. As the entity facing the ISPV, the fronter will be the cedant to the ISPV, and the ISPV will be required to comply with the requirements as outlined in Question 2.

47. Can an ISPV be consolidated into a group?

Where the ISPV is consolidated into a group the PRA will need to assess the specific circumstances for consolidation against the relevant requirements (see Question 2). As part of the ISPV Application Form, and as outlined in paragraph 11(c) of Annex I of the Implementing Regulation, the applicant should provide an assessment of the applicable accounting consolidation requirements of the ISPV into a group.
ANNEX - Glossary

In this FAQs we use the following terms:

- 'AMRE' refers to Aggregate Maximum Risk Exposure as defined in Article 1(44) of the Commission Delegated Regulation (EU) 2015/35;
- 'applicant' refers to the person or firm applying on behalf of the proposed ISPV, where the entity has not been established yet. Where an entity has already been established the applicant may be the entity, or a person or firm applying on its behalf.
- 'Delegated Regulation' refers to Commission Delegated Regulation (EU) 2015/35;
- 'FCA' refers to the Financial Conduct Authority;
- 'FSMA' refers to the Financial Services and Markets Act 2000;
- 'Implementing Regulation' refers to Commission Implementing Regulation (EU) 2015/462;
- 'ISPV' refers to a UK ISPV, as per the meaning given in the Glossary of the PRA Rulebook;
- 'ISPV webpage' refers to the following webpage: https://www.bankofengland.co.uk/prudential-regulation/authorisations/insurance-special-purpose-vehicles
- 'MISPV' refers to a UK multi-arrangement ISPV, as per the meaning given in the Insurance Special Purpose Vehicles Part of the PRA Rulebook;
- 'Part 4A Permission' refers to the permission granted by the PRA to carry out one or more regulated activities as per section 55F (within Part 4A) of FSMA;
- 'PCC' refers to Protected Cell Company;
- 'Qualifying holding' has the meaning given in Article 13(21) of the Solvency II Directive;
- 'regulators' refers to both the FCA and the PRA
- 'RTR' refers to the Risk Transformation Regulations 2017;
- 'SMR' refers to the Senior Managers Regime;
- 'SOP' refers to Scope of Permission;
- 'SS8/17' refers to the Supervisory Statement 8/17 'Authorisation and supervision of insurance special purpose vehicles';
- 'VOP' refers to Variation of Permission; and
- 'we', 'us' or 'our' refers to the PRA.