

# Bank of England PRA

## Appendices to occasional consultation paper – April 2023

Consultation paper | CP8/23

April 2023

Draft for consultation



---

# Contents

---

<b>Contents</b>	<b>1</b>
<b>1: Draft amendments to Statement of Policy – The PRA’s approach to the publication of Solvency II technical information</b>	<b>2</b>
<b>2: PRA Rulebook: Group Supervision Instrument 2023</b>	<b>4</b>
<b>3: PRA Rulebook: Miscellaneous Amendments Instrument 2023</b>	<b>6</b>
<b>4: PRA statutory obligations</b>	<b>9</b>

---

Draft for consultation

---

# 1: Draft amendments to Statement of Policy – The PRA’s approach to the publication of Solvency II technical information

---

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

## 1 Background

1.1 The Prudential Regulation Authority (PRA) is required to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency.<sup>1</sup> This Statement of Policy (SoP) explains how the PRA fulfils its obligations in this regard. UK firms should use the PRA’s published TI for regulatory reporting from and including 11:00pm on Thursday 31 December 2020.

....

### Reference portfolios (RPs) for the Volatility Adjustment

3.7 [DELETED]

3.8 The PRA derives VA RPs using the same technical approach as EIOPA, except for three specific areas where the PRA’s approach differs, as explained below.

3.9 ~~The first difference in the PRA’s approach is that t~~The derivation of the VA RPs reflects UK firms’ asset exposures. Specifically:

- the VA RPs used to calculate the GBP VA are derived using data from the Quantitative Reporting Templates (QRTs) submitted to the PRA by UK solo insurers; and
- the VA RPs for non-GBP PRA relevant currencies are derived by taking a weighted average of:
  - (i) EIOPA’s published VA RPs derived using QRT data submitted to EIOPA; and
  - (ii) the VA RPs derived using QRT data submitted to the PRA for (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015). This QRT data is aggregated together with solo QRT data submitted to the PRA by the Society of Lloyd’s.

---

<sup>1</sup> Regulation 4B of the Solvency 2 Regulations 2015/575. The PRA published the first set of TI in January 2021.

The respective RPs are weighted using the aggregate market value of assets as reported in the QRT data of (i) European Economic Area firms and (ii) (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015) and the Society of Lloyd's.

3.10 ~~The second difference in the PRA's VA RP approach is that t~~The PRA applies a simplified approach to determining the weights for the government and corporate bond portfolios when 'looking through' into the underlying assets held within collective investment undertakings (CIUs). The PRA assumes that the exposures within CIUs in respect of duration, sector, and rating are the same as exposures held outside of CIUs.

3.11 ~~The third difference in the PRA's approach is that t~~The PRA published country VA RP for GBP is the same as the currency VA RP.

3.11A The PRA's approach will only treat exposures to central governments and central banks as government bonds, with all bonds issued by regional governments and local authorities (RGLAs) classified as corporate bonds.

3.12 The PRA aims to give firms at least three months' notice of the change in the VA RPs. The PRA's VA RPs will become effective from the next 31 March following publication.

....

Draft for consultation

## 2: PRA Rulebook: Group Supervision Instrument 2023

### PRA RULEBOOK: SOLVENCY II FIRMS: GROUP SUPERVISION INSTRUMENT 2023

#### 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); and
  - (3) section 192J (Rules requiring 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.

#### Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

#### PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2023

- D. The PRA makes the rules in the Annex to this instrument.

#### Commencement

- E. This instrument comes into force on [DATE].

#### Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2023.

#### By order of the Prudential Regulation Committee

[DATE]

---

Annex

Amendments to the Group Supervision 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:

...

participating Solvency II undertaking

means a Solvency II undertaking that holds a participation in another undertaking.

Draft for consultation

# 3: PRA Rulebook: Miscellaneous Amendments Instrument 2023

## PRA RULEBOOK: MISCELLANEOUS AMENDMENTS INSTRUMENT 2023

### Powers exercised

- G. 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”):
- H. section 137G (The PRA’s general rules); and  
(4) section 137T (General supplementary powers).
- I. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

### Pre-conditions to making

- J. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

### PRA Rulebook: Miscellaneous Amendments Instrument 2023

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

Part	Annex
Glossary	A
Auditors	B

### Commencement

- L. This instrument comes into force on [dd/mm/yy].

### Citation

- M. This instrument may be cited as the PRA Rulebook: Miscellaneous Amendments Instrument 2023

### By order of the Prudential Regulation Committee

[DATE]

## Annex A

## Amendments to the Glossary Part

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

...

*accounting principles*

means whichever of the following are applicable:

~~(1) the *insurance accounts rules*;~~

~~(2) the Friendly Societies (Accounts and Related Provisions) Regulations 1994;~~

~~(3) Financial Reporting Standards and Statements of Standard Accounting Practice issued or adopted by the Accounting Standards Board;~~

~~(4) Statements of Recommended Practice, issued by industry or sectoral bodies recognised for this purpose by the Accounting Standards Board;~~

~~(5) international accounting standards within the meaning of EC Regulations No.1606/2002 of the European Parliament and of the council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation;~~

~~(6) the Companies Act 1985; and~~

~~(7) the Companies Act 2006;~~

~~as applicable to the *firm* for the purpose of its external financial reporting (or as would be applicable if the *firm* was a company with its head office in the UK).~~

means in the case of:

(1) a *firm* which is a company, the applicable accounting requirements for the company concerned specified in Part 15 of the Companies Act 2006 or in any provision made under that Act;

(2) an *overseas firm*, the accounting requirements as would be applicable if that *firm* was a company with its registered or head office in the UK; or

(3) any other *firm*, the applicable accounting requirements for the type of *firm* concerned as specified in any relevant legislation;

and for this purpose 'accounting requirements' means accounting requirements for the purposes of external financial reporting and 'company' has the same meaning as in section 1(1) of the Companies Act 2006.

...

*defined benefit liability*

means the shortfall of the value of the assets in a *defined-benefit occupational pension scheme* below the present value of the scheme liabilities, to the extent that a *firm*, as employer, in accordance with the ~~accounting principles~~ accounting principles applicable to it, should recognise that shortfall as a liability in its balance sheet.

---

Annex B

Amendments to the Auditors Part

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

...

**2 APPOINTMENT OF AUDITORS**

---

2.1 A *firm* must:

...

(5) when a new auditor is appointed:

- (a) notify the *PRA* of that appointment; and
- (b) advise the *PRA* of the name and business address of the auditor appointed and the date from which the appointment has effect,

using the form referred to in Notifications 10.32.

Draft for consultation

## 4: PRA statutory obligations

The statutory obligations applicable to the PRA's policy development process are set out below. This CP explains the policy assessment of relevant considerations.

- **For rules instruments and UK Technical Standards Instruments:** Purpose of the policy proposals (FSMA s138J(2)(b)).
- **For rules instruments and UK Technical Standards Instruments:** Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- **For rules instruments and UK Technical Standards Instruments:** Analysis of whether the impact on mutuals is significantly different to the impact on other authorised firms (FSMA s138J(2)(c) and 138K).
- Compatibility with the PRA's primary objectives (FSMA s138J(2)(d)(i), 2B and 2C).
- Compatibility with the PRA's secondary competition objective (FSMA s138J(2)(d)(ii) and 2H(1)).
- Compatibility with the regulatory principles (FSMA s138J(2)(d)(ii), 2H(2) and 3B).
- Have regard to the HMT recommendation letters (BoE Act s30B).
- Have due regard to the public sector equality duty (Equality Act s149).
- Have regard, subject to any other requirement affecting the exercise of the regulatory function, to the principles of good regulation and when determining general policy or principles to the Regulators Code (Legislative and Regulatory Reform Act 2006 s21 & 22).
- Have regard, so far as consistent with the proper exercise of those functions, to the purpose of conserving biodiversity. Conserving biodiversity includes, in relation to a living organism or type of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).
- **For rules instruments and UK Technical Standards Instruments:** Consultation of the FCA (FSMA s138J(1)(a)).
- **For UK Technical Standards Instruments only:** FSMA s138J(1)(a) is replaced with: consultation of the FCA and/or Bank, where that Regulator has an interest in the technical standards (FSMA s138P(4) and (5)).
- **For UK Technical Standards Instruments only:** notice given to HMT of the consultation on the UKTS ('best efforts' basis).
- For CRR rules only: subject to certain exceptions, have regard to:
  - relevant standards recommended by the Basel Committee on Banking Supervision from time to time
  - the likely effect of the rules on the relative standing of the United Kingdom as a place for internationally active credit institutions and investment firms to be

based or to carry on activities. For these purposes, the PRA must consider the United Kingdom's standing in relation to the other countries and territories in which, in its opinion, internationally active credit institutions and investment firms are most likely to choose to be based or carry on activities

- the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the United Kingdom on a sustainable basis in the medium and long term
  - the target in section 1 of the Climate Change Act 2008 (carbon target for 2050)
  - (s144C (1) & (2) FSMA – exceptions in s144E FSMA).
- **For CRR rules only** – explanation of the ways in which having regard to the matters specified above has affected the proposed rules (s144D FSMA).
  - **For CRR rules only** – publication of a summary of the proposed CRR rules.
  - **For CRR rules only** – consideration and consultation with the Treasury about the likely effect of the rules on relevant equivalence decisions (s144C (3) & (4) FSMA).

Draft for consultation