

Bank of England PRA

Appendices to LIAC02/25 – Amendments to the Insurance Special Purpose Vehicle Part of the PRA Rulebook, Solvency Requirements, Rule 2.2A(3)

Low Impact Amendments Consultation | LIAC02/25

October 2025



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Draft for consultation

1: Draft amendments to supervisory statement

2/25 – Prudential considerations for insurance and reinsurance undertakings when transferring risk to Special Purpose Vehicles

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

2: Risk transfer arrangements to SPVs: risks

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Exception to the no co-mingling requirement

2.11 Rule 2.2B of the Solvency Requirements in the Insurance Special Purpose Vehicles

Part of the PRA Rulebook provides an exception to the requirement in rule 2.2A(3) that assets used to cover multiple risk transfer agreements are kept separate and not co-mingled. Where this exception applies, the UK ISPV must continue to comply with all other requirements applicable to each risk transformation transaction. This includes being fully funded at all times, ensuring the risk transfer is effective and incontrovertible, and that payment obligations to investors are at all times subordinated to the obligation to pay cedant claims.

2.12 Where at any time the sole investor condition in rule 2.2B is not met, the exception ceases to apply and the UK ISPV should ensure compliance with rule 2.2A(3) without undue delay, subject to any grace period.

2.13 Some ways of ensuring that the ongoing requirements on an ISPV are met where the exception in rule 2.2B applies might be to provide in the terms of the risk transfer agreement(s) and the securities instrument(s):

- (a) functionally equivalent and synchronized collateral release mechanisms and triggers designed to ensure the UK ISPV can pay amounts as they fall due in accordance with rule 2B.4;
- (b) a requirement for the prior written consent of the cedant and the sole investor for assets of risk transfer A (that would otherwise be eligible for release) to be applied directly to support risk transfer B; and

- (c) where assets are reallocated in accordance with (b), detailed contractual provisions as to that reallocation, including when the UK ISPV's obligations in respect of risk transfer A are discharged.

2.14 These examples are not exhaustive. The PRA expects UK ISPVs and cedants to be able to demonstrate that any alternative asset-holding arrangements (beyond any grace period) for each risk transfer agreement continue to satisfy, on an ongoing basis, the conditions of fully funded, effective risk transfer, and investor subordination, as well as all other existing PRA requirements.

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SPVs in third countries

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2.21 In such cases the PRA would expect cedants to be able to demonstrate how an SPV, to which it has transferred risks, satisfies the conditions of fully funding, effective risk transfer and subordination on an ongoing basis. This includes consideration of the expectations outlined in 2.11 to 2.14, in cases where assets of an SPV are co-mingled. This applies both to firms using standard formula and those using full or partial internal models to calculate their SCR. As part of ongoing supervision, the PRA would expect that firms would consider the requirements that apply to the SPV in its jurisdiction; and to be able to explain those requirements to the PRA. A cedant should, at all times, be able to verify that the SPV risk transfer qualifies as a risk mitigation technique. The PRA may request details as appropriate, as part of its engagement with the firm.

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