

**PRA RULEBOOK: CRR FIRMS: NON-AUTHORISED PERSONS: RECOVERY PLANS:
PREPARATIONS FOR SOLVENT EXIT 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).
- 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. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2). After consulting, the PRA published a draft of the proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Non-authorised Persons: Recovery Plans: Preparations for Solvent Exit Instrument 2024

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

Commencement

- E. This instrument comes into force on 1 October 2025.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Non-authorised Persons: Recovery Plans: Preparations for Solvent Exit Instrument 2024.

By order of the Prudential Regulation Committee
20 February 2024

Annex

Amendments to the Recovery Plans Part

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

Part

RECOVERY PLANS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. RECOVERY PLANS**
- 3. GROUP RECOVERY PLANS**
- 4. REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN**
- 5. GOVERNANCE ARRANGEMENTS**
- 6. RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS**
- 7. PREPARATION FOR SOLVENT EXIT – NON-SYSTEMIC BANKS AND BUILDING SOCIETIES**

1. APPLICATION AND DEFINITIONS

...

1.2. In this Part, the following definitions shall apply:

...

solvent exit

means the process through which a *firm* ceases to carry on its *PRA regulated activities* while remaining solvent.

solvent exit analysis

means a document setting out a *firm's* preparations for *solvent exit*.

...

7. PREPARATIONS FOR SOLVENT EXIT – NON-SYSTEMIC BANKS AND BUILDING SOCIETIES

7.1 This Chapter applies to every *firm* that is a *UK bank* or *building society* but is not:

(1) itself, or part of a group that is, a *G-SII*, a *non-UK G-SII* or an *O-SII*; or

(2) a *firm* to which the Operational Continuity Part applies.

7.2 A *firm* must prepare for *solvent exit* so that, if the need arises, it can effect a *solvent exit* in an orderly manner.

7.3 A *firm* must produce a *solvent exit analysis* and update it whenever a material change has taken place that may affect its preparations for a *solvent exit*, and at least once every three years.

7.4 A *firm* must be able to provide to the *PRA* on request the current version of its *solvent exit analysis*.

**PRA RULEBOOK: NON-AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY
LIMIT AND BASE COSTS 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 137T (General supplementary powers);
 - (2) section 213 (The compensation scheme);
 - (3) section 214 (General); and
 - (4) section 223 (Management expenses).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: Non-Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2024

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

Commencement

- D. This instrument comes into force on 1 April 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: Non-Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2024.

By order of the Prudential Regulation Committee

12 March 2024

Annex**Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part**

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

...

2 LIMIT ON MANAGEMENT EXPENSES LEVIES

...

- 2.1A The amount which the FSCS may recover from the sums levied under the *compensation scheme* as *management expenses* attributable to the period 1 April ~~2023~~2024 to 31 March ~~2024~~2025 may not exceed £~~109,815,740~~108,111,085.

...

PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS, NON-SOLVENCY II FIRMS: SECURITISATION (AND MISCELLANEOUS AMENDMENTS) 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 192XA (Rules applying to holding companies); and
 - (3) section 137T (General supplementary powers).
- 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: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Securitisation (and Miscellaneous Amendments) Instrument 2024

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

Part	Annexes
Securitisation	A
Liquidity Coverage Ratio (CRR)	B
Non-Performing Exposures Securitisation (CRR)	C

Notes

- D. In Annex A to this instrument, the “notes” (indicated by “[Note:]”) are included for the convenience of readers but do not form part of the legislative text.
- E. The rules in this instrument include any forms referred to in the rules. Where indicated by “here”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- F. The Annexes to this instrument come into force on 1 November 2024.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms, Solvency II Firms, Non-Solvency II Firms: Securitisation (and Miscellaneous Amendments) Instrument 2024.

By order of the Prudential Regulation Committee

23 April 2024

Annex A

Securitisation Part

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

Part

SECURITISATION

Chapter content

1. APPLICATION AND DEFINITIONS
2. SECURITISATION: GENERAL PROVISIONS
 - ARTICLE 5 DUE DILIGENCE REQUIREMENTS FOR INSTITUTIONAL INVESTORS
 - ARTICLE 6 RISK RETENTION
 - ARTICLE 7 TRANSPARENCY REQUIREMENTS
 - ARTICLE 8 BAN ON RESECURITISATION
 - ARTICLE 9 CRITERIA FOR CREDIT-GRANTING
 - ARTICLE 43 TRANSITIONAL PROVISIONS RELATING TO PRE-2019 SECURITISATIONS
3. SECURITISATION: TRANSITIONAL PROVISIONS RELATING TO POST-2019 SECURITISATIONS
4. RISK RETENTION
 - ARTICLE 2 RETAINERS OF MATERIAL NET ECONOMIC INTEREST
 - ARTICLE 3 FULFILMENT OF THE RETENTION REQUIREMENT THROUGH A SYNTHETIC FORM OF RETENTION OR CONTINGENT FORM OF RETENTION
 - ARTICLE 4 RETENTION OF NOT LESS THAN 5% OF THE NOMINAL VALUE OF EACH OF THE TRANCHES SOLD OR TRANSFERRED TO INVESTORS
 - ARTICLE 5 RETENTION OF THE ORIGINATOR'S INTEREST IN A REVOLVING SECURITISATION OF REVOLVING EXPOSURES
 - ARTICLE 6 RETENTION OF RANDOMLY SELECTED EXPOSURES EQUIVALENT TO NOT LESS THAN 5% OF THE NOMINAL VALUE OF THE SECURITISED EXPOSURES
 - ARTICLE 7 RETENTION OF THE FIRST LOSS TRANCHE
 - ARTICLE 8 RETENTION OF A FIRST LOSS EXPOSURE OF NOT LESS THAN 5% OF EVERY SECURITISED EXPOSURE

ARTICLE 9	APPLICATION OF THE RETENTION OPTIONS ON NPE SECURITISATIONS
ARTICLE 10	MEASUREMENT OF THE LEVEL OF RETENTION
ARTICLE 11	MEASUREMENT OF THE MATERIAL NET ECONOMIC INTEREST TO BE RETAINED FOR EXPOSURES IN THE FORM OF DRAWN AND UNDRAWN AMOUNTS OF CREDIT FACILITIES
ARTICLE 12	PROHIBITION OF HEDGING OR SELLING THE RETAINED INTEREST
ARTICLE 13	TRANSACTIONS FOR WHICH THE RETENTION REQUIREMENT DOES NOT APPLY AS REFERRED TO IN ARTICLE 6(6) OF CHAPTER 2
ARTICLE 14	RETENTION ON A CONSOLIDATED BASIS
ARTICLE 15	ARRANGEMENTS OR EMBEDDED MECHANISMS
ARTICLE 16	FULFILMENT OF THE RETENTION REQUIREMENT IN SECURITISATIONS OF OWN ISSUED DEBT INSTRUMENTS
ARTICLE 17	RETENTION REQUIREMENT ON RESECURITISATIONS
ARTICLE 18	ASSETS TRANSFERRED TO SSPE
ARTICLE 22	DISCLOSURE OF THE LEVEL OF THE COMMITMENT TO MAINTAIN A NET ECONOMIC INTEREST
5.	THE INFORMATION AND THE DETAILS OF A SECURITISATION TO BE MADE AVAILABLE BY THE ORIGINATOR, SPONSOR AND SSPE
ARTICLE 2	INFORMATION ON UNDERLYING EXPOSURES
ARTICLE 3	INFORMATION ON INVESTOR REPORTS
ARTICLE 4	INFORMATION GRANULARITY
ARTICLE 5	ITEM CODES
ARTICLE 6	INSIDE INFORMATION
ARTICLE 7	INFORMATION ON SIGNIFICANT EVENTS
ARTICLE 8	INFORMATION GRANULARITY
ARTICLE 9	INFORMATION COMPLETENESS AND CONSISTENCY
ARTICLE 10	INFORMATION TIMELINESS
ARTICLE 11	UNIQUE IDENTIFIERS
ARTICLE 12	CLASSIFICATIONS REPORTING
ANNEXES	

**6. FORMAT AND STANDARDISED TEMPLATES FOR MAKING AVAILABLE THE
INFORMATION AND DETAILS OF A SECURITISATION BY THE ORIGINATOR,
SPONSOR AND SSPE**

ARTICLE 1 UNDERLYING EXPOSURES TEMPLATES

ARTICLE 2 INVESTOR REPORT TEMPLATES

ARTICLE 3 INSIDE INFORMATION TEMPLATES

ARTICLE 4 SIGNIFICANT EVENT TEMPLATES

ARTICLE 5 FORMAT OF INFORMATION

ANNEXES

1. APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *UK undertaking*.

1.2 Unless otherwise stated, this Part applies to:

- (1) *securitisations* the securities of which are issued; and
- (2) in the case of *securitisations* which do not involve the issuance of securities, *securitisations* the initial or new *securitisation positions* of which are created, on or after 1 January 2019.

1.3 In this Part, unless the context otherwise provides, the following definitions shall apply:

ABCP programme

means a programme of *securitisations* the securities issued by which predominantly take the form of asset-backed commercial paper with an original maturity of one year or less.

ABCP transaction

means a *securitisation* within an *ABCP programme*.

active underlying exposure

means an underlying exposure which, at the *data cut-off date*, may be expected to generate cash inflows or outflows in the future.

contingent form of retention

means retention of a material net economic interest through the use of guarantees, letters of credit and other similar forms of credit support ensuring an immediate enforcement of the retention.

data cut-off date

means the reference date of the information being reported in accordance with this Part.

debt service coverage ratio

means the annual rental income generated by commercial real estate that is wholly or partially financed by debt, net of taxes and net of any operational expenses to maintain the property's value, relative to the annual combined interest and principal repayment on a borrower's total debt over a given period on the loan secured by the property.

established in the UK

means constituted under the law of a part of the *United Kingdom*:

- (a) with a registered office in any part of the *United Kingdom*; or
- (b) if the person does not have a registered office, with a head office in any part of the *United Kingdom*.

first loss tranche

means the most subordinated *tranche* in a *securitisation* that is the first *tranche* to bear losses incurred on the securitised exposures and thereby provides protection to the second loss and, where relevant, higher ranking *tranches*.

fully supported ABCP programme

means an *ABCP programme* that its *sponsor* directly and fully supports by providing to the *SSPE* one or more *liquidity facilities* covering at least all of the following:

- (1) all liquidity and credit risks of the *ABCP programme*;
- (2) any material dilution risks of the exposures being securitised; and
- (3) any other *ABCP transaction*-level and *ABCP programme*-level costs if necessary to guarantee to the *investor* the full payment of any amount under the asset-backed commercial paper.

fully supported ABCP transaction

means an *ABCP transaction* supported by a *liquidity facility*, at transaction level or at *ABCP programme* level, that covers at least all of the following:

- (1) all liquidity and credit risks of the *ABCP transaction*;
- (2) any material dilution risks of the exposures being securitised in the *ABCP transaction*; and
- (3) any other *ABCP transaction*-level and *ABCP programme*-level costs if necessary to guarantee to the *investor* the full payment of any amount under the asset-backed commercial paper.

inactive underlying exposure

means an underlying exposure that has defaulted with no further recoveries expected or that has been redeemed, prepaid, cancelled, repurchased or substituted.

institutional investor

means an *investor* which is one of the following:

- (1) an insurance undertaking as defined in section 417(1) of *FSMA*;
- (2) a reinsurance undertaking as defined in section 417(1) of *FSMA*;
- (3) the trustees or managers of an *occupational pension scheme*;
- (4) a fund manager of an *occupational pension scheme* appointed under section 34(2) of the Pensions Act 1995 that, in respect of activity undertaken pursuant to that appointment, is authorised for the purposes of section 31 of *FSMA*;
- (5) an AIFM (as defined in regulation 4(1) of the Alternative Investment Fund Managers Regulations 2013 (2013/1797)):
 - (a) with *permission* under Part 4A of *FSMA* in respect of the activity specified by article 51ZC of the *Regulated Activities Order* (managing an AIF); and
 - (b) which markets or manages an AIF (as defined in regulation 3 of the Alternative Investment Fund Managers Regulations 2013) in the *UK*,
 and for the purposes of (b), an AIFM markets an AIF when the AIFM makes a direct or indirect offering or placement of units or shares of an AIF managed by it to or with an *investor* domiciled or with a registered office in the *UK*, or when another person makes such an offering or placement at the initiative of, or on behalf of, the AIFM;
- (6) a small registered *UK* AIFM as defined in Regulation 2(1) of the Alternative Investment Fund Managers Regulations 2013;
- (7) a management company as defined in section 237(2) of *FSMA*;
- (8) a UCITS as defined by section 236A of *FSMA*, which is an authorised open-ended investment company as defined in section 237(3) of *FSMA*;
- (9) a CRR firm as defined by Article 4(1)(2A) of *CRR*; or
- (10) an FCA investment firm as defined by Article 4(1)(2AB) of *CRR*.

interest coverage ratio

means the gross annual rental income, before operational expenses and taxes, accruing from a buy-to-let property or the net annual rental income accruing from commercial real estate relative to the annual interest cost of the loan secured by the property.

investor

means a person holding a *securitisation position*.

liquidity facility

means the *securitisation position* arising from a contractual agreement to provide funding to ensure timeliness of cash flows to *investors*.

non-performing exposure or NPE

means an exposure that meets any of the conditions set out in Article 47a(3) of *CRR*.

non-refundable purchase price discount

means the difference between the outstanding balance of the exposures in the underlying pool and the price at which those exposures are sold by the *originator* to the *SSPE*, where neither the *originator* nor the *original lender* are reimbursed for that difference.

NPE securitisations

means a *securitisation* backed by a pool of *non-performing exposures* the nominal value of which makes up not less than 90% of the entire pool's nominal value at the time of origination and at any later time where assets are added to or removed from the underlying pool due to replenishment or restructuring.

occupational pension scheme

means a scheme within the meaning set out in section 1(1) of the Pension Schemes Act 1993 that also has its main administration in the *UK*.

original lender

means an entity which, itself or through related entities, directly or indirectly, concluded the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised.

originator

means an entity which:

- (1) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised; or
- (2) purchases a third party's exposures on its own account and then securitises them.

reporting entity

means the entity designated in accordance with the first subparagraph of Article 7(2) of Chapter 2.

resecuritisation

means *securitisation* where at least one of the underlying exposures is a *securitisation position*.

revolving exposure

means an exposure whereby borrowers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.

revolving securitisation

means a *securitisation* where the *securitisation* structure itself revolves by exposures being added to or removed from the pool of exposures irrespective of whether the exposures revolve or not.

securitisation

means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is *tranching*, having all of the following characteristics:

- (1) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;
- (2) the subordination of *tranches* determines the distribution of losses during the ongoing life of the transaction or scheme; and
- (3) the transaction or scheme does not create exposures which possess all of the following characteristics:
 - (a) the exposure is to an entity which was created specifically to finance or operate physical assets or is an economically comparable exposure;
 - (b) the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and
 - (c) the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

securitisation position

means an exposure to a *securitisation*.

Securitisation Regulations

means the Securitisation Regulations 2024 (SI 2024/102).

securitisation repository

means a *body corporate* that centrally collects and maintains the records of *securitisations*.

servicer

means an entity that manages a pool of purchased receivables or the underlying credit exposures on a day-to-day basis.

sponsor

means a credit institution as defined in point (1) of Article 4(1) of *CRR* or an investment firm as defined in paragraph 1A of Article 2 of *MiFIR*, whether located in the *UK* or in a country or *territory* outside the *UK*, which:

- (1) is not an *originator*; and
- (2) either:
 - (a) establishes and manages an *ABCP programme* or other *securitisation* that purchases exposures from third party entities; or
 - (b) establishes an *ABCP programme* or other *securitisation* that purchases exposures from third party entities and delegates the day-to-day active portfolio management involved in that *securitisation* to an entity which is authorised to

manage assets belonging to another *person* in accordance with the law of the country or *territory* in which the entity is established.

SSPE or securitisation special purpose entity

means a corporation, trust or other entity, other than an *originator* or *sponsor*, established for the purpose of carrying out one or more *securitisations*, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the entity from those of the *originator*.

STS securitisation

has the meaning given in regulation 9 of the *Securitisation Regulations*.

synthetic form of retention

means retention of a material net economic interest through the use of derivative instruments.

synthetic securitisation

means a *securitisation* where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the *originator*.

territory

includes the *EU* and any other international organisation or authority comprising countries or territories.

traditional securitisation

means a *securitisation* involving the transfer of the economic interest in the exposures being securitised through the transfer of ownership of those exposures from the *originator* to an *SSPE* or through sub-participation by an *SSPE*, where the securities issued do not represent payment obligations of the *originator*.

tranche

means a contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.

2. SECURITISATION: GENERAL PROVISIONS

ARTICLE 5 DUE-DILIGENCE REQUIREMENTS FOR INSTITUTIONAL INVESTORS

1. Prior to holding a *securitisation position*, an *institutional investor*, other than the *originator*, *sponsor* or *original lender*, shall verify that:
 - (a) where the *originator* or *original lender* is *established in the UK* and is not a CRR firm or an FCA investment firm as defined in points (2A) and (2AB) of Article 4(1) of CRR, the *originator* or *original lender* grants all the credits giving rise to the underlying exposures (unless they are trade receivables not originated in the form of a loan) on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes in accordance with Article 9(1) of this Chapter (or equivalent FCA rules);
 - (b) where the *originator* or *original lender* is not *established in the UK*, the *originator* or *original lender* grants all the credits giving rise to the underlying exposures (unless they are trade receivables not originated in the form of a loan) on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes to ensure that credit-granting is based on a thorough assessment of the obligor's creditworthiness;
 - (c) if *established in the UK*, the *originator*, *sponsor* or *original lender* retains on an ongoing basis a material net economic interest in accordance with Article 6 of this Chapter and Chapter 4 (or equivalent FCA rules) and the risk retention is disclosed to the *institutional investor* in accordance with Article 7 of this Chapter and Chapters 5 and 6 (or equivalent FCA rules);
 - (d) if not *established in the UK*, the *originator*, *sponsor* or *original lender* retains on an ongoing basis a material net economic interest which, in any event, shall not be less than 5%, determined in accordance with Article 6 of this Chapter and Chapter 4 (or equivalent FCA rules), and discloses the risk retention to *institutional investors*;
 - (e) the *originator*, *sponsor* or *SSPE* has made available sufficient information to enable the *institutional investor* independently to assess the risks of holding the *securitisation position* and has committed to make further information available on an ongoing basis, as appropriate. That information must include at least the following:
 - (i) in the case of a *securitisation* which is not an *ABCP programme* or an *ABCP transaction*, details of the underlying exposures, which is to be provided on at least a quarterly basis;
 - (ii) in the case of an *ABCP programme* or an *ABCP transaction*, information on the underlying receivables or credit claims, which is to be provided on at least a *monthly* basis;
 - (iii) *investor* reports providing periodic updates on the credit quality and performance of the underlying exposures, any relevant financial or other triggers contained in the transaction documentation including information on events which trigger changes to the priority of payments or a substitution of any counterparty to the transaction, data on the cash flows generated by the underlying exposures and by the liabilities of the *securitisation* and the calculation and modality of retention of a material net economic interest in the transaction by the *originator*, *sponsor* or *original lender*, which is to be

provided on at least a quarterly basis in the cases referred to in point (i) and on at least a *monthly* basis in the cases referred to in point (ii);

- (iv) all information on the legal documentation needed to understand the transaction, including detail of the legal provisions governing the structure of the transaction, any credit enhancement or liquidity support features, the cash flows and loss waterfalls, *investors'* voting rights and any triggers or other events that could result in a material impact on the performance of the *securitisation position*, which is to be provided:
 - for primary market investments, in draft or initial form before pricing or commitment to invest and in final form no later than 15 days after closing of the transaction, or
 - for secondary market investments, in final form before a commitment to invest,
 - and for both primary and secondary market investments an updated version as soon as practicable following any material change;
- (v) information describing any changes or events materially affecting the transaction, including breaches of obligations under the transaction documents, which is to be provided as soon as practicable following the material change or event;
- (vi) any approved prospectus or other offering or marketing document prepared with the cooperation of the *originator* or *sponsor* which is to be provided:
 - for primary market investments, in draft or initial form before pricing or commitment to invest and in final form no later than 15 days after closing of the transaction, or
 - for secondary market investments, in final form before a commitment to invest; and
- (vii) if there is an STS notification or a notification falling within regulation 12(3)(b) of the *Securitisation Regulations* in respect of the transaction, that STS notification, which is to be provided:
 - for primary market investments, in draft or initial form before pricing or commitment to invest and in final form no later than 15 days after closing of the transaction, or
 - for secondary market investments, in final form before a commitment to invest,
 - and for both primary and secondary market investments an updated version as soon as practicable following any material change.

2. As regards *fully supported ABCP transactions*, the requirement specified in point (a) of paragraph 1 of this Article shall apply to the *sponsor* and not to the *institutional investor*. In such cases, the *sponsor* shall verify that the *originator* or *original lender* which is not a CRR firm or an FCA investment firm as defined in points (2A) and (2AB) of Article 4(1) of CRR grants all the credits giving rise to the underlying exposures on the basis of sound and well-defined criteria and clearly established processes for approving, amending, renewing and financing those credits and has effective systems in place to apply those criteria and processes in accordance with Article 9(1) of this Chapter (or equivalent FCA rules).
3. Prior to holding a *securitisation position*, an *institutional investor*, other than the *originator*, *sponsor* or *original lender*, shall carry out a due-diligence assessment which enables it to assess the risks involved. That assessment shall consider at least all of the following:
 - (a) the risk characteristics of the individual *securitisation position* and of the underlying exposures;
 - (b) all the structural features of the *securitisation* that can materially impact the performance of the *securitisation position*, including the contractual priorities of payment and priority of payment-related triggers, credit enhancements, liquidity enhancements, market value triggers, and transaction-specific definitions of default;

- (c) with regard to a *securitisation* included on the list maintained under regulation 10(2) of the *Securitisation Regulations*, compliance with the STS criteria and with any applicable designated activity rules relating to the notification mentioned in regulation 10(1) of the *Securitisation Regulations*;
- (d) with regard to a *securitisation* that appears to the *institutional investor* to be an overseas STS securitisation as defined in regulation 12(2) of the *Securitisation Regulations*, whether the *securitisation* falls within a description of *securitisation* specified in regulations made from time to time under regulation 13(1) of the *Securitisation Regulations* in relation to a country or territory designated under such regulations;
- (e) with regard to a securitisation falling within paragraph (3)(b) and (c) of regulation 12 of the *Securitisation Regulations*, compliance with the requirements referred to in paragraph (3)(a) of that regulation and with Article 27 of Regulation (EU) 2017/2402 as it had effect in relation to the *European Union* at the time of the notification mentioned in paragraph (3)(b) of that regulation;
- (f) in considering the matter referred to in point (c), an *institutional investor* may rely to an appropriate extent on the STS notification and on the information disclosed by the *originator*, *sponsor* and *SSPE* concerning compliance with the STS criteria, without solely or mechanistically relying on that notification or information;
- (g) in considering the matter referred to in point (e), an *institutional investor* may rely to an appropriate extent on the notification referred to in regulation 12(3)(b) of the *Securitisation Regulations* and on the information disclosed by the *originator*, *sponsor* and *SSPE* to the European Securities and Markets Authority concerning compliance with the requirements referred to in regulation 12(3)(a) of the *Securitisation Regulations*, without solely or mechanistically relying on that notification or information; and

Notwithstanding points (a) and (b) of the first subparagraph, in the case of a *fully supported ABCP programme*, *institutional investors* in the commercial paper issued by that *ABCP programme* shall consider the features of the *ABCP programme* and the full liquidity support.

- 3A. The requirements in paragraphs 1 and 3 of this Article continue to apply where a third party has provided services under SECN 2.5.2R of the *FCA Handbook*.
- 4. An *institutional investor*, other than the *originator*, *sponsor* or *original lender*, holding a *securitisation position*, shall at least:
 - (a) establish appropriate written procedures that are proportionate to the risk profile of the *securitisation position* and, where relevant, to the *institutional investor's* trading and non-trading book, in order to monitor, on an ongoing basis, compliance with paragraphs 1 and 3 of this Article and the performance of the *securitisation position* and of the underlying exposures. Where relevant with respect to the *securitisation* and the underlying exposures, those written procedures shall include monitoring of the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, recovery rates, repurchases, loan modifications, payment holidays, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Where the underlying exposures are themselves *securitisation positions*, in accordance with Article 8 of this Chapter or SECN 7.2.1(2)(b) of the *FCA Handbook*, *institutional investors* shall also monitor the exposures underlying those positions;
 - (b) in the case of a *securitisation* other than a *fully supported ABCP programme*, regularly perform stress tests on the cash flows and collateral values supporting the underlying

exposures or, in the absence of sufficient data on cash flows and collateral values, stress tests on loss assumptions, having regard to the nature, scale and complexity of the risk of the *securitisation position*;

- (c) in the case of *fully supported ABCP programmes*, regularly perform stress tests on the solvency and liquidity of the *sponsor*;
 - (d) ensure internal reporting to its *management body* so that the *management body* is aware of the material risks arising from the *securitisation position* and so that those risks are adequately managed;
 - (e) be able to demonstrate to the *PRA*, upon request, that it has a comprehensive and thorough understanding of the *securitisation position* and its underlying exposures and that it has implemented written policies and procedures for the risk management of the *securitisation position* and for maintaining records of the verifications and due diligence in accordance with paragraphs 1 and 2 of this Article and of any other relevant information; and
 - (f) in the case of exposures to a *fully supported ABCP programme*, be able to demonstrate to the *PRA*, upon request, that it has a comprehensive and thorough understanding of the credit quality of the *sponsor* and of the terms of the *liquidity facility* provided.
5. Without prejudice to paragraphs 1 to 4 of this Article, where an *institutional investor* has been given authority by the *institutional investor* described below to make investment management decisions that might expose it to a *securitisation*, the following paragraphs apply in respect of any exposure to a *securitisation* arising from those decisions. Unless specified below, the responsibility for fulfilling the obligations under paragraphs 1, 3 and 4 shall remain with the *institutional investor*.

Where an *institutional investor* who is subject to this Article ('the managing party') is instructed under this paragraph to fulfil any of the obligations of another *institutional investor* who is subject to this Article and fails to do so, the managing party is responsible for the failure to comply with the relevant obligation and not the *institutional investor* who is exposed to the *securitisation*.

Where an *institutional investor* who is subject to this Article ('the managing party') is instructed under this paragraph to fulfil any of the obligations of another *institutional investor* who is subject to equivalent rules made by the *FCA* or to regulations 32A to 32D of the *Securitisation Regulations* and fails to do so, the managing party is responsible for the failure to comply with the relevant obligation.

Where an *institutional investor* who is subject to equivalent rules made by the *FCA* is instructed under this paragraph to fulfil any of the obligations of another *institutional investor* who is subject to this Article and fails to do so, the *institutional investor* who is exposed to the *securitisation* is not responsible for the failure to comply.

ARTICLE 6 RISK RETENTION

1. The *originator*, *sponsor* or *original lender* of a *securitisation* shall retain on an ongoing basis a material net economic interest in the *securitisation* of not less than 5%. That interest shall be measured at the origination and shall be determined by the notional value for off-balance-sheet items.

Where the *originator*, *sponsor* or *original lender* have not agreed between them who will retain the material net economic interest, the *originator* shall retain the material net economic interest.

There shall be no multiple applications of the retention requirements for any given *securitisation*.

The material net economic interest shall not be split amongst different types of retainers and shall not be subject to any credit-risk mitigation or hedging.

For the purposes of this Article and Chapter 4, an entity shall not be considered to be an *originator* where the entity has been established or operates for the sole purpose of securitising exposures.

2. Subject to paragraph 2A of this Article, *originators* shall not select assets to be transferred to the *SSPE* with the aim of rendering losses on the assets transferred to the *SSPE*, measured over the life of the transaction, or over a maximum of four years where the life of the transaction is longer than four years, higher than the losses over the same period on comparable assets held on the balance sheet of the *originator*.
- 2A. *Originators* may select assets to be transferred to the *SSPE* that ex ante have a higher than average credit risk profile as compared to the average credit risk profile of comparable assets, if any, that remain on the balance sheet of the *originator* provided that the higher credit risk profile of the assets transferred to the *SSPE* is clearly communicated to the *investors* or potential *investors*.
3. Only the following shall qualify as a retention of a material net economic interest of not less than 5% within the meaning of paragraph 1 of this Article:
 - (a) the retention of not less than 5% of the nominal value of each of the *tranches* sold or transferred to *investors*;
 - (b) in the case of *revolving securitisations* or *securitisations* of *revolving exposures*, the retention of the *originator's* interest of not less than 5% of the nominal value of each of the securitised exposures;
 - (c) the retention of randomly selected exposures, equivalent to not less than 5% of the nominal value of the securitised exposures, where such non-securitised exposures would otherwise have been securitised in the *securitisation*, provided that the number of potentially securitised exposures is not less than 100 at origination;
 - (d) the retention of the *first loss tranche* and, where such retention does not amount to 5% of the nominal value of the securitised exposures, if necessary, other *tranches* having the same or a more severe risk profile than those transferred or sold to *investors* and not maturing any earlier than those transferred or sold to *investors*, so that the retention equals in total not less than 5% of the nominal value of the securitised exposures; or
 - (e) the retention of a first loss exposure of not less than 5% of every securitised exposure in the *securitisation*.
- 3A. By way of derogation from paragraph 3 of this Article, in the case of *NPE securitisations*, where a *non-refundable purchase price discount* has been agreed, the retention of a material net economic interest for the purposes of that paragraph shall not be less than 5% of the sum of the net value of the securitised exposures that qualify as *non-performing exposures* and, if applicable, the nominal value of any performing securitised exposures.

The net value of a *non-performing exposure* shall be calculated by deducting the *non-refundable purchase price discount* agreed at the level of the individual securitised exposure at the time of origination or, where applicable, a corresponding share of the *non-refundable purchase price discount* agreed at the level of the pool of underlying exposures at the time of origination from the exposure's nominal value or, where applicable, its outstanding value at the time of origination.

In addition, for the purpose of determining the net value of the securitised *non-performing exposures*, the *non-refundable purchase price discount* may include the difference between the nominal amount of the *tranches* of the *NPE securitisation* underwritten by the *originator* for subsequent sale and the price at which these *tranches* are first sold to unrelated third parties.

4. Where:

- (a) a mixed financial holding company;
- (b) a UK parent institution;
- (c) a financial holding company *established in the UK*; or
- (d) a subsidiary of such a company or institution;

as an *originator* or *sponsor*, securitises exposures from one or more *CRR firms*, *FCA investment firms* or other *financial institutions* which are included in the scope of supervision on a *consolidated basis*, the requirements set out in paragraph 1 of this Article may be satisfied on the basis of the consolidated situation of the mixed financial holding company, UK parent institution or financial holding company concerned.

Subject to the modifications set out in the third subparagraph of SECN 5.2.9R of the *FCA Handbook* to the requirements set out in Article 79 of Directive 2013/36/EU of the European Parliament and of the Council in respect of *FCA investment firms*, the first subparagraph applies only if *CRR firms*, *FCA investment firms* or *financial institutions* which created the securitised exposures comply with the requirements set out in Article 79 of Directive 2013/36/EU of the European Parliament and of the Council and deliver the information needed to satisfy the requirements provided for in Article 5 of this Chapter, in a timely manner, to the *originator* or *sponsor* and, if the *originator* or *sponsor* is a *subsidiary*, to the mixed financial holding company, UK parent institution or financial holding company which is the parent undertaking of the subsidiary.

In this paragraph:

- (a) 'CRR firm', 'financial holding company', 'financial institution', 'FCA investment firm', 'subsidiary' and 'UK parent institution' have the meaning given in Article 4 of *CRR*; and
- (b) 'mixed financial holding company' has the meaning given in regulation 1(2) of the *Financial Conglomerates Regulations*.

5. Paragraph 1 of this Article shall not apply where the securitised exposures are exposures to or exposures fully, unconditionally and irrevocably guaranteed by:

- (a) central governments or *central banks*;
- (b) regional governments, local authorities and public sector entities within the meaning of point (8) of Article 4(1) of *CRR*;
- (c) institutions to which a 50% risk weight or less is assigned under Part Three, Title II, Chapter 2 of *CRR* and Articles 132a to 132c of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (*CRR*) Part;
- (d) national promotional banks or institutions within the meaning of point (3) of Article 2 of Regulation (EU) 2015/1017; or
- (e) the multilateral development banks listed in Article 117 of *CRR*.

6. Paragraph 1 of this Article shall not apply to transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than *securitisation positions*.

ARTICLE 7 TRANSPARENCY REQUIREMENTS

1. The *originator*, *sponsor* and *SSPE* of a *securitisation* shall, in accordance with paragraph 2 of this Article and Chapters 5 and 6, make at least the following information available to holders of a *securitisation position*, to the *PRA* and, upon request, to potential *investors*:
 - (a) information on the underlying exposures on a quarterly basis, or, in the case of asset-backed commercial paper, information on the underlying receivables or credit claims on a *monthly* basis;
 - (b) all underlying documentation essential for the understanding of the transaction, including but not limited to, where applicable, the following documents:
 - (i) the final offering document or the prospectus together with the closing transaction documents, excluding legal opinions;
 - (ii) for *traditional securitisation* the asset sale agreement, assignment, novation or transfer agreement and any relevant declaration of trust;
 - (iii) the derivatives and guarantee agreements, as well as any relevant documents on collateralisation arrangements where the exposures being securitised remain exposures of the *originator*;
 - (iv) the servicing, back-up servicing, administration and cash management agreements;
 - (v) the trust deed, security deed, agency agreement, account bank agreement, guaranteed investment contract, incorporated terms or master trust framework or master definitions agreement or such legal documentation with equivalent legal value;
 - (vi) any relevant inter-creditor agreements, derivatives documentation, subordinated loan agreements, start-up loan agreements and *liquidity facility* agreements; and
 - (vii) a detailed description of the priority of payments of the *securitisation*;
 - (c) where section 85 of *FSMA* (prohibition of dealing etc in transferable securities without approved prospectus) and rules made by the *FCA* for the purposes of Part 6 of *FSMA* (official listing) do not require a prospectus to be drawn up, a transaction summary or overview of the main features of the *securitisation*, including, where applicable:
 - (i) details regarding the structure of the deal, including the structure diagrams containing an overview of the transaction, the cash flows and the ownership structure;
 - (ii) details regarding the exposure characteristics, cash flows, loss waterfall, credit enhancement and liquidity support features;
 - (iii) details regarding the voting rights of the holders of a *securitisation position* and their relationship to other secured creditors; and
 - (iv) a list of all triggers and events referred to in the documents provided in accordance with point (b) of this subparagraph that could have a material impact on the performance of the *securitisation position*;
 - (d) in the case of *STS securitisations*, the *STS* notification referred to in SECN 2.5 of the *FCA Handbook*;
 - (e) quarterly *investor* reports, or, in the case of asset-backed commercial paper programme, *monthly investor* reports, containing at least the following:

- (i) all materially relevant data on the credit quality and performance of underlying exposures;
 - (ii) information on events which trigger changes in the priority of payments or the replacement of any counterparties, and, in the case of a *securitisation* which is not an *ABCP transaction* or *ABCP programme*, data on the cash flows generated by the underlying exposures and by the liabilities of the *securitisation*; and
 - (iii) information about the risk retained, including information on which of the modalities provided for in Article 6(3) of this Chapter has been applied, in accordance with Article 6 of this Chapter and Chapters 5 and 6;
- (f) any inside information relating to the *securitisation* that the *originator*, *sponsor* or *SSPE* is obliged to make public in accordance with Article 17 of Regulation (EU) No 596/2014; and
- (g) where point (f) of this subparagraph does not apply, any significant event, such as:
- (i) a material breach of the obligations provided for in the documents made available in accordance with point (b) of this subparagraph, including any remedy, waiver or consent subsequently provided in relation to such a breach;
 - (ii) a change in the structural features that can materially impact the performance of the *securitisation*;
 - (iii) a change in the risk characteristics of the *securitisation* or of the underlying exposures that can materially impact the performance of the *securitisation*;
 - (iv) in the case of *STS securitisations*, where the *securitisation* ceases to meet the STS requirements or where the *PRA* or *FCA* has taken remedial or administrative actions; and
 - (v) any material amendment to transaction documents.

The information described in points (a) and (e) of the first subparagraph shall be made available simultaneously each quarter at the latest one *month* after the due date for the payment of interest or, in the case of *ABCP transactions*, at the latest one *month* after the end of the period the report covers.

The information described in points (b), (c) and (d) of the first subparagraph shall be made available in draft or initial form before pricing or original commitment to invest and in final form no later than 15 days after closing of the transaction.

In the case of asset-backed commercial paper, the information described in points (a), (c)(ii) and (e)(i) of the first subparagraph shall be made available in aggregate form to holders of *securitisation positions* and, on request, to potential *investors*. Loan-level data shall be made available to the *sponsor* and, on request, to the *PRA*.

Without prejudice to Regulation (EU) No 596/2014, the information described in points (f) and (g) of the first subparagraph shall be made available without delay.

The *originator*, *sponsor* and *SSPE* may provide the information specified in this paragraph in anonymised or aggregated form or, in relation to point (b) of the first subparagraph, as a summary of the specified documentation, where and to the extent that is necessary in order to comply with the law applicable in the *United Kingdom* governing the protection of confidentiality of information and the processing of personal data and with any confidentiality obligation relating to customer, *original lender* or debtor information.

2. The *originator*, *sponsor* and *SSPE* of a *securitisation* must designate one of their number to be the entity responsible for fulfilling the information requirements pursuant to points (a), (b), (d),

(e), (f) and (g) of the first subparagraph of paragraph 1 of this Article. Such designation does not relieve the other parties of their responsibilities set out in paragraph 1.

The *reporting entity* shall make the information for a *securitisation* transaction available by means of a *securitisation repository* registered by the *FCA*.

The *reporting entity* and the *securitisation repository* shall be indicated in the *securitisation's* documentation.

The obligations referred to in the second and fifth subparagraphs shall not apply to *securitisations* for which section 85 of *FSMA* and rules made by the *FCA* for the purposes of Part 6 of *FSMA* do not require a prospectus to be drawn up.

Where no *securitisation repository* is registered in accordance with regulation 14 of the *Securitisation Regulations*, the *reporting entity* shall make the information available by means of a website that:

- (a) includes a well-functioning data quality control system;
- (b) is subject to appropriate governance standards and to maintenance and operation of an adequate organisational structure that ensures the continuity and orderly functioning of the website;
- (c) is subject to appropriate systems, controls and procedures that identify all relevant sources of operational risk;
- (d) includes systems that ensure the protection and integrity of the information received and the prompt recording of the information; and
- (e) makes it possible to keep record of the information for at least five years after the maturity date of the *securitisation*.

The *reporting entity* and the *securitisation repository* where the information is made available shall be indicated in the documentation regarding the *securitisation*.

ARTICLE 8 BAN ON RESECURITISATION

1. The underlying exposures used in a *securitisation* shall not include *securitisation positions*.
The first subparagraph shall not apply to:
 - (a) any *securitisation* the securities of which were issued before 1 January 2019; or
 - (b) any *securitisation* in respect of which the *PRA* has disapplied or modified the first subparagraph such that the underlying exposures can include *securitisation positions*.
2. [Note: Provision left blank]
3. [Note: Provision left blank]
4. A *fully supported ABCP programme* shall not be considered to be a *resecuritisation* for the purposes of this Article provided that none of the *ABCP transactions* within that programme is a *resecuritisation* and that the credit enhancement does not establish a second layer of *tranching* at the programme level.

ARTICLE 9 CRITERIA FOR CREDIT-GRANTING

1. *Originators*, *sponsors* and *original lenders* shall apply to exposures to be securitised (unless they are trade receivables not originated in the form of a loan) the same sound and well-defined

criteria for credit-granting which they apply to non-securitised exposures. To that end, the same clearly established processes for approving and, where relevant, amending, renewing and refinancing credits shall be applied. *Originators, sponsors and original lenders* shall have effective systems in place to apply those criteria and processes in order to ensure that credit-granting is based on a thorough assessment of the obligor's creditworthiness taking appropriate account of factors relevant to verifying the prospect of the obligor meeting the obligor's obligations under the credit agreement.

2. Where the underlying exposures of *securitisations* are residential loans made on or after 20 March 2014, the pool of those loans shall not include any loan that is marketed and underwritten on the premise that the loan applicant or, where applicable, intermediaries were made aware that the information provided by the loan applicant might not be verified by the lender.
3. Where an *originator* purchases a third party's exposures for its own account and then securitises them, that *originator* shall verify that the entity which was, directly or indirectly, involved in the original agreement which created the obligations or potential obligations to be securitised fulfils the requirements referred to in paragraph 1 of this Article (or equivalent *FCA* rules).
4. Paragraph 3 of this Article does not apply if:
 - (a) the original agreement which created the obligations or potential obligations of the debtor or potential debtor was entered into before 20 March 2014; and
 - (b) the *originator* that purchases a third party's exposures for its own account and then securitises them meets the obligations that *originators* were required to meet under Article 21(2) of Commission Delegated Regulation (EU) No 625/2014 before 1 January 2019.

ARTICLE 43 TRANSITIONAL PROVISIONS RELATING TO PRE-2019 SECURITISATIONS

1. [Note: Provision left blank]
2. [Note: Provision left blank]
3. [Note: Provision left blank]
4. [Note: Provision left blank]
5. In respect of *securitisations* the securities of which were issued on or after 1 January 2011 but before 1 January 2019 and in respect of *securitisations* the securities of which were issued before 1 January 2011 where new underlying exposures have been added or substituted after 31 December 2014, the due diligence requirements set out in *CRR* and Commission Delegated Regulation (EU) 2015/35 respectively shall continue to apply in the version applicable on 31 December 2018 as if they still had effect and were set out expressly here.

For the purposes of this paragraph:

- (a) Article 256 of Commission Delegated Regulation (EU) 2015/35 is to be read as if it still has effect notwithstanding its deletion by Article 1(7) of Commission Delegated Regulation (EU) 2018/1221; and
- (b) for the purposes of point (a) of paragraph 3(f) of Article 256 of Commission Delegated Regulation (EU) 2015/35, Article 254 of Commission Delegated Regulation (EU) 2015/35 is to be read as if it still has effect notwithstanding its deletion by Article 1(7) of Commission Delegated Regulation (EU) 2018/1221, together with the following modifications:

- (i) paragraph 1 is to be read as if for 'Article 135(2)(a) of Directive 2009/138/EC' there were substituted 'rule 6.1 of the Investments Part of the *PRA Rulebook* as it had effect on *IP completion day*'; and
 - (ii) paragraph 2(b) is to be read as if for 'Article 242(12) of Regulation (EU) No 575/2013' there were substituted 'rule 1.3 of the Securitisation Part of the *PRA Rulebook*'.
- 6. In respect of *securitisations* the securities of which were issued before 1 January 2019 a CRR firm (as defined by Article 4(1)(2A) of *CRR* as *CRR* had effect on *IP completion day*), an insurance undertaking (as defined in section 417(1) of *FSMA*) and a reinsurance undertaking (as defined in section 417(1) of *FSMA*) shall continue to apply Article 405 of *CRR* and Chapters I, II and III and Article 22 of Commission Delegated Regulation (EU) No 625/2014, Articles 254 and 255 of Commission Delegated Regulation (EU) 2015/35 respectively as in the version applicable on 31 December 2018 as if they still had effect and were set out expressly here. For the purposes of this paragraph, Article 405 of *CRR* is to be read with the following modifications:
 - (a) read paragraph 2 as if:
 - (i) for the first subparagraph, substitute:

'Where:

 - (a) a mixed financial holding company,
 - (b) a UK parent institution which is a credit institution,
 - (c) a financial holding company established in the *United Kingdom*, or
 - (d) a subsidiary of such a company or institution;

as an *originator* or *sponsor*, securitises exposures from one or more credit institutions, investment firms or other financial institutions which are included in the scope of supervision on a *consolidated basis*, the requirement set out in paragraph 1 may be satisfied on the basis of the consolidated situation of the mixed financial holding company, UK parent institution or financial holding company concerned';
 - (ii) in the second subparagraph for the words from 'in a timely manner' to the end there were substituted 'the information needed to satisfy the requirements set out in Article 409, in a timely manner, to the *originator* or *sponsor* and, if the *originator* or *sponsor* is a subsidiary, to the mixed financial holding company, UK parent institution or financial holding company which is the parent undertaking of the subsidiary'; and
 - (iii) after the second subparagraph there were inserted:

'In this paragraph:

 - (a) 'credit institution', 'financial holding company', 'financial institution', 'investment firm', 'subsidiary' and 'UK parent institution' have the meaning given in Article 4(1) of *CRR*; and
 - (b) 'mixed financial holding company' has the meaning given in the *PRA Rulebook*'

; and
 - (b) in paragraph 3, in point (b) ignore 'of Member States'.
- 7. [Note: Provision left blank]
- 8. [Note: Provision left blank]
- 9. For the purpose of this Article, in the case of *securitisations* which do not involve the issuance of securities, any references to '*securitisations* the securities of which were issued' shall be

deemed to mean '*securitisations* the initial *securitisation positions* of which are created'. When applying this Article to *securitisations* which do not involve the issuance of securities, any references in this Article to '*securitisations* the securities of which were issued before 1 January 2019' shall be deemed to mean '*securitisations* the initial *securitisation positions* of which are created before 1 January 2019' such that this Part applies to any *securitisations* that create new *securitisation positions* on or after 1 January 2019.

3. TRANSITIONAL PROVISIONS RELATING TO POST-2019 SECURITISATIONS

3.1. As regards *securitisations*:

- (1) the securities of which are issued; and
- (2) (in the case of *securitisations* which do not involve the issuance of securities) *securitisations* the initial or new *securitisations positions* of which are created,

on or after 1 January 2019 but before 1 November 2024, this Part does not apply and instead a *firm* must comply with the provisions identified in 3.2 as if they still had effect and were set out expressly here.

3.2. For the purposes of 3.1, the relevant provisions are the following as they applied immediately before their revocation on 31 October 2024 which are to be read in accordance with 3.3:

- (1) Article 5, Article 6 (excluding paragraph 7), Article 7 (excluding paragraphs 3 and 4), Article 8 (excluding paragraphs 2, 3 and 5), Article 9 and Article 43(5) and 43(6), together with relevant terms defined in Article 2, of Regulation (EU) 2017/2402 of the European Parliament and of the Council;
- (2) Chapters I, II and III and Article 22 of Commission Delegated Regulation (EU) 625/2014;
- (3) Commission Delegated Regulation (EU) 2020/1224; and
- (4) Commission Implementing Regulation (EU) 2020/1225.

3.3 The provisions referred to in 3.2 are to be read as follows:

- (1) in paragraph 5 of Article 5, as if the relevant references to '*institutional investor*' did not include an AIFM unless the AIFM falls within paragraph 5 of the definition of '*institutional investor*' in Chapter 1; and
- (2) in sub-paragraph (b) of Article 8(1), as if it read '*any securitisation in respect of which the PRA has disapplied or modified the first sub-paragraph such that the underlying exposures can include securitisation positions*'.

4. RISK RETENTION

ARTICLE 2 RETAINERS OF MATERIAL NET ECONOMIC INTEREST

1. The requirement that the retained material net economic interest shall not be split amongst different types of retainers under Article 6(1) of Chapter 2 shall be fulfilled by any of the following:

- (a) the *originator* or *originators*;
- (b) the *sponsor* or *sponsors*; or
- (c) the *original lender* or *original lenders*.

2. Where more than one *originator* is eligible to fulfil the retention requirement each *originator* shall fulfil that requirement on a pro rata basis by reference to the securitised exposures for which it is the *originator*.
3. Where more than one *original lender* is eligible to fulfil the retention requirement, each *original lender* shall fulfil that requirement on a pro rata basis by reference to the securitised exposures for which it is the *original lender*.
4. By way of derogation from paragraphs 2 and 3, the retention requirement may be fulfilled in full by a single *originator* or *original lender* provided that either of the following conditions is met:
 - (a) the *originator* or *original lender* has established and is managing the *ABCP programme* or other *securitisation*; or
 - (b) the *originator* or *original lender* has established the *ABCP programme* or other *securitisation* and has contributed over 50% of the total securitised exposures measured by nominal value at origination.
5. Where more than one *sponsor* is eligible to fulfil the retention requirement, the retention requirement shall be fulfilled by either:
 - (a) the *sponsor* whose economic interest is most appropriately aligned with *investors* as agreed by the multiple *sponsors* on the basis of objective criteria including, but not limited to, the transaction's fee structure, the *sponsor's* involvement in the establishment and management of the *ABCP programme* or other *securitisation* and exposure to credit risk of the *securitisations*; or
 - (b) by each *sponsor* in proportion to the total number of *sponsors*.
6. The following must be taken into account when assessing whether an entity has been established or operates for the sole purpose of securitising exposures, as referred to in the fifth sub-paragraph of Article 6(1) of Chapter 2:
 - (a) the entity has a business strategy and the capacity to meet payment obligations consistent with a broader business model and involving material support from capital, assets, fees or other income available to the entity, relying neither on the exposures being securitised, nor on any interests retained or proposed to be retained in accordance with Article 6 of Chapter 2, as well as any corresponding income from such exposures and interests; and
 - (b) the members of the management body have the necessary experience to enable the entity to pursue the established business strategy, as well as adequate corporate governance arrangements.

ARTICLE 3 FULFILMENT OF THE RETENTION REQUIREMENT THROUGH A SYNTHETIC FORM OF RETENTION OR CONTINGENT FORM OF RETENTION

1. The fulfilment of the retention requirement in a manner equivalent to one of the options set out in Article 6(3) of Chapter 2 through a *synthetic form of retention* or *contingent form of retention*, shall meet all of the following conditions:
 - (a) the amount retained is at least equal to the amount required under the option which the *synthetic form of retention* or *contingent form of retention* corresponds to; and
 - (b) the retainer has explicitly disclosed in the final offering document, prospectus, transaction summary or overview of the main features of the *securitisation* that it will retain a material net economic interest in the *securitisation* through a *synthetic form of retention* or *contingent form of retention* on an ongoing basis.

For the purposes of point (b), the retainer shall disclose in the final offering document, prospectus transaction summary or overview of the main features of the *securitisation*, all the details on the applicable *synthetic form of retention* or *contingent form of retention*, including, the methodology used in its determination of the material net interest retained and an explanation on which of the options in Article 6(3) of Chapter 2 the retention is equivalent to.

2. Where an entity other than a *CRR firm* or a *UK Solvency II Firm*, retains an economic interest through a *synthetic form of retention* or *contingent form of retention*, that interest retained on a synthetic or contingent basis shall be fully collateralised in cash and held on a segregated basis as client money as referred to in CASS 7.12.1R of the *FCA Handbook*.

ARTICLE 4 RETENTION OF NOT LESS THAN 5% OF THE NOMINAL VALUE OF EACH OF THE TRANCHES SOLD OR TRANSFERRED TO INVESTORS

1. The retention of not less than 5% of the nominal value of each of the *tranches* sold or transferred to the *investors* as referred to in Article 6(3)(a) of Chapter 2 may be complied with through any of the following methods:
 - (a) the retention of not less than 5% of the nominal value of each of the securitised exposures, provided that the retained credit risk ranks *pari passu* with or is subordinated to the credit risk securitised in relation to the same exposures;
 - (b) the provision, in the context of an *ABCP programme*, of a *liquidity facility*, where the following conditions are met:
 - (i) the *liquidity facility* covers 100% of the share of the credit risk of the securitised exposures of the relevant *securitisation* transaction that is being funded by the respective *ABCP programme*;
 - (ii) the *liquidity facility* covers the credit risk for as long as the retainer has to retain the material net economic interest by means of such *liquidity facility* for the relevant *securitisation* transaction;
 - (iii) the *liquidity facility* is provided by the *originator*, *sponsor* or *original lender* in the *securitisation* transaction; and
 - (iv) the *investors* becoming exposed to such *securitisation* have been given access to appropriate information with the initial disclosure to enable them to verify that points (i), (ii) and (iii) are complied with; or
 - (c) the retention of an exposure which exposes its holder to the credit risk of each issued *tranche* of a *securitisation* transaction on a pro-rata basis (vertical *tranche*) of not less than 5% of the total nominal value of each of the issued *tranches*.

ARTICLE 5 RETENTION OF THE ORIGINATOR'S INTEREST IN A REVOLVING SECURITISATION OF REVOLVING EXPOSURES

1. The retention of the *originator's* interest of not less than 5% of the nominal value of each of the securitised exposures as referred to in point (b) of Article 6(3) of Chapter 2 shall only be considered fulfilled where the retained credit risk of such exposures ranks *pari passu* with or is subordinated to the credit risk securitised in relation to the same exposures.

ARTICLE 6 RETENTION OF RANDOMLY SELECTED EXPOSURES EQUIVALENT TO NOT LESS THAN 5% OF THE NOMINAL VALUE OF THE SECURITISED EXPOSURES

1. The pool of at least 100 potentially securitised exposures from which retained non-securitised and securitised exposures are to be randomly selected, as referred to in point (c) of Article 6(3) of Chapter 2, shall be sufficiently diverse to avoid an excessive concentration of the retained interest.
2. When selecting the exposures referred to in paragraph 1, retainers shall take into account quantitative and qualitative factors that are appropriate for the type of securitised exposures to ensure that the distinction between retained non-securitised and securitised exposures is random. For that purpose, and where relevant, retainers shall take into consideration the following factors when selecting exposures:
 - (a) the time of the origination of the loan (vintage);
 - (b) the type of securitised exposures;
 - (c) the geographical location;
 - (d) the origination date;
 - (e) the maturity date;
 - (f) the loan to value ratio;
 - (g) the collateral type;
 - (h) the industry sector;
 - (i) the outstanding loan balance; and
 - (j) any other factor deemed relevant by the retainer.
3. Retainers shall not select different individual exposures at different points in time, except where that may be necessary to fulfil the retention requirement in relation to a *securitisation* in which the securitised exposures fluctuate over time, either due to new exposures being added to the *securitisation* or to changes in the level of the individual securitised exposures.
4. Where the retainer is the *securitisation's servicer*, the selection conducted in accordance with this Article shall not lead to a deterioration in the servicing standards applied by the retainer on the transferred exposures relative to the retained exposures.

ARTICLE 7 RETENTION OF THE FIRST LOSS TRANCHE

1. The retention of the *first loss tranche* referred to in point (d) of Article 6(3) of Chapter 2 may be fulfilled by holding either on-balance sheet or off-balance sheet positions and by any of the following methods:
 - (a) provision of a *contingent form of retention* or of a *liquidity facility* in the context of an *ABCP programme*, which fulfils all of the following criteria:
 - (i) the exposure covers at least 5% of the nominal value of the securitised exposures;
 - (ii) the exposure constitutes a first loss position in relation to the *securitisation*;
 - (iii) the exposure covers the credit risk for the entire duration of the retention commitment;
 - (iv) the exposure is provided by the retainer; and
 - (v) the *investors* have been given access within the initial disclosure to all information necessary to verify that points (i) to (iv) are complied with; or

- (b) overcollateralisation, as defined to in point (9) of Article 242 of *CRR*, if that overcollateralisation operates as a 'first loss' position of not less than 5% of the nominal value of the securitised exposures.
- 2. Where the *first loss tranche* exceeds 5% of the nominal value of the securitised exposures, the retainer may chose to retain a pro-rata portion of such *first loss tranche* only, provided that that portion is equivalent to at least 5% of the nominal value of the securitised exposures.

ARTICLE 8 RETENTION OF A FIRST LOSS EXPOSURE OF NOT LESS THAN 5% OF EVERY SECURITISED EXPOSURE

- 1. The retention of a first loss exposure at the level of every securitised exposure as referred to in point (e) of Article 6(3) of Chapter 2 shall only be considered to be fulfilled where the retained credit risk is subordinated to the credit risk securitised in relation to the same exposures.
- 2. By way of derogation from paragraph 1 of this Article, the retention of a first loss exposure at the level of every securitised exposure as referred to in point (e) of Article 6(3) of Chapter 2 may also be fulfilled through the sale by the *originator* or *original lender* of the underlying exposures at a discounted value where each of the following conditions is met:
 - (a) the amount of the discount is not less than 5% of the nominal value of each exposure; and
 - (b) the discounted sale amount is refundable to the *originator* or *original lender* only if, that discounted sale amount is not absorbed by losses related to the credit risk associated to the securitised exposures.

ARTICLE 9 APPLICATION OF THE RETENTION OPTIONS ON NPE SECURITISATIONS

- 1. In the case of *NPE securitisations* as referred to in Article 6(3A) of Chapter 2, for the purposes of applying Article 4(1)(a) and Articles 5 to 8 of this Chapter to the share of *non-performing exposures* in the pool of underlying exposures of a *securitisation*, any reference to the nominal value of the securitised exposures shall be construed as a reference to the net value of the *non-performing exposures*.
- 2. For the purposes of Article 6 of this Chapter, the net value of the retained *non-performing exposures* shall be calculated using the same amount of the *non-refundable purchase price discount* that would have been applied had the retained *non-performing exposures* been securitised.
- 3. For the purposes of Article 4(1)(a), Article 5 and Article 8 of this Chapter, the net value of the retained part of the *non-performing exposures* shall be computed using the same percentage of the *non-refundable purchase price discount* that applies to the part that is not retained.
- 4. Where the *non-refundable purchase price discount* as referred to in the second subparagraph of Article 6(3A) of Chapter 2 has been agreed at the level of the pool of underlying *non-performing exposures*, the net value of individual securitised *non-performing exposures* included in the pool or sub-pool, as applicable, shall be calculated by applying a corresponding share of the *non-refundable purchase price discount* agreed at pool or sub-pool level to each of the securitised *non-performing exposures* in proportion to their nominal value or, where applicable, their outstanding value at the time of origination.
- 5. Where the *non-refundable purchase price discount* includes the difference between the nominal amount of one *tranche* or several *tranches* of a *NPE securitisation* underwritten by the *originator* for subsequent sale and the price at which that *tranche* or those *tranches* are first sold to unrelated third parties as referred to in the second subparagraph of Article 6(3A) of

Chapter 2, that difference shall be taken into account in the calculation of the net value of individual securitised *non-performing exposures* by applying a corresponding share of the difference to each of the securitised *non-performing exposures* in proportion to their nominal value.

ARTICLE 10 MEASUREMENT OF THE LEVEL OF RETENTION

1. When measuring the level of retention of the net economic interest, the following criteria shall be applied:
 - (a) the origination shall be considered as the time at which the exposures were first securitised;
 - (b) where the calculation of the level of retention is based on nominal values, it shall not take into account the acquisition price of assets;
 - (c) finance charge collections and other fee income in respect of the securitised exposures net of costs ('excess spread') shall not be taken into account when measuring the retainer's net economic interest; and
 - (d) the retention option and methodology used to calculate the net economic interest shall not be changed during the life of a *securitisation* transaction, unless exceptional circumstances require a change and that change is not used as a means to reduce the amount of the retained interest.
2. The retainer shall not be required to replenish or readjust its retained interest to at least 5% as losses are realised on its retained exposures or allocated to its retained positions.

ARTICLE 11 MEASUREMENT OF THE MATERIAL NET ECONOMIC INTEREST TO BE RETAINED FOR EXPOSURES IN THE FORM OF DRAWN AND UNDRAWN AMOUNTS OF CREDIT FACILITIES

1. The calculation of the net economic interest to be retained for credit facilities, including credit cards, shall be based on amounts already drawn, realised or received only and shall be adjusted in accordance with changes to those amounts.

ARTICLE 12 PROHIBITION OF HEDGING OR SELLING THE RETAINED INTEREST

1. The obligation in the first subparagraph of Article 6(1) of Chapter 2 to retain on an ongoing basis a material net economic interest in the *securitisation* shall be deemed to have been met only where, taking into account the economic substance of the transaction, both of the following conditions are met:
 - (a) the retained material net economic interest is not subject to any credit risk mitigation or hedging of either the retained *securitisation* positions or the retained exposures; and
 - (b) the retainer does not sell, transfer or otherwise surrender all or part of the rights, benefits or obligations arising from the retained net economic interest.
- 1A. By way of derogation of paragraph 1(a) of this Article, the retainer may hedge the net economic interest where the hedge:
 - (a) is not against the credit risk of either the retained *securitisation positions* or the retained exposures; or

- (b) is undertaken prior to the *securitisation* as a prudent element of credit granting or risk management and does not create a differentiation for the retainer's benefit between the credit risk of the retained *securitisation positions* or exposures and the *securitisation positions* or exposures transferred to *investors*.
- 2. The retainer may use retained exposures or *securitisation positions* as collateral for secured funding purposes including, where relevant, funding arrangements that involve a sale, transfer or other surrender of all or part of the rights, benefits or obligations arising from the retained net economic interest, provided that such use as collateral does not transfer the exposure to the credit risk of those retained exposures or *securitisation positions* to a third party.
- 3. Paragraph 1(b) of this Article shall not apply:
 - (a) in the event of the insolvency of the retainer; or
 - (b) in the case of retention on a *consolidated basis*, in accordance with Article 14 of this Chapter.

ARTICLE 13 TRANSACTIONS FOR WHICH THE RETENTION REQUIREMENT DOES NOT APPLY AS REFERRED TO IN ARTICLE 6(6) OF CHAPTER 2

- 1. Transactions for which the retention requirement does not apply, as referred to in Article 6(6) of Chapter 2, shall include *securitisation positions* in the correlation trading portfolio which are either reference instruments satisfying the criterion in Article 338(1)(b) of *CRR* or which are eligible for inclusion in the correlation trading portfolio.

ARTICLE 14 RETENTION ON A CONSOLIDATED BASIS

- 1. A mixed financial holding company, a UK parent institution or financial holding company *established in the UK* (as defined in Article 6(4) of Chapter 2) satisfying, in accordance with Article 6(4) of Chapter 2, the retention requirement on the basis of its consolidated situation shall, in the case the retainer is no longer included in the scope of supervision on a *consolidated basis*, ensure that one or more of the remaining entities included in the scope of supervision on a *consolidated basis* fulfils the retention requirement.

ARTICLE 15 ARRANGEMENTS OR EMBEDDED MECHANISMS

- 1. Retainers shall not use arrangements or embedded mechanisms in the *securitisation* by virtue of which the retained interest at origination would decline faster than the interest transferred. In the allocation of the cash flows, the retained interest shall not be prioritised to preferentially benefit from being repaid or amortised ahead of the transferred interest.
- 2. The amortisation of the retained interest via cash flow allocation set out in paragraph 1 or through the allocation of losses that, in effect, reduce the level of retention over time, shall be allowed.

ARTICLE 16 FULFILMENT OF THE RETENTION REQUIREMENT IN SECURITISATIONS OF OWN ISSUED DEBT INSTRUMENTS

- 1. Where an entity securitises its own issued debt instruments, including covered bonds as defined in the *FCA Handbook*, and the underlying exposures of the *securitisation* comprise

exclusively those own-issued debt instruments, the retention requirement in Article 6(1) of Chapter 2 shall be considered complied with.

ARTICLE 17 RETENTION REQUIREMENT ON RESECURITISATIONS

1. Subject to paragraph 2 of this Article, in the context of a *resecuritisation* as far as enabled in accordance with Article 8 of Chapter 2, a retainer shall retain the material net economic interest in relation to each of the respective transaction levels.
2. The *originator* of a *resecuritisation* shall not be obliged to retain a material net economic interest at the transaction level of the *resecuritisation* where all of the following conditions are met:
 - (a) the *originator* of the *resecuritisation* is also the *originator* and the retainer of the underlying *securitisation*;
 - (b) the *resecuritisation* is backed by a pool of exposures comprising solely exposures or positions which were retained by the *originator* in the underlying *securitisation* in excess of the required minimum net economic interest prior to the date of origination of the *resecuritisation*; and
 - (c) there is no maturity mismatch between the underlying *securitisation* positions or exposures and the *resecuritisation*.
3. A *fully supported ABCP programme* which meets the requirements of Article 8(4) of Chapter 2 shall not be deemed a *resecuritisation* for the purposes of this Article.
4. The retranching by the *securitisation's originator* of an issued *tranche* into contiguous *tranches* shall not constitute a *resecuritisation* for the purposes of this Article.

ARTICLE 18 ASSETS TRANSFERRED TO SSPE

1. For the purposes of Article 6(2) of Chapter 2, assets held on the balance sheet of the *originator* that according to the documentation of the *securitisation* meet the eligibility criteria shall be deemed to be comparable to the assets to be transferred to the *SSPE* where, at the time of the selection of the assets, both of the following conditions are met:
 - (a) the expected performance of both the assets to be further held on the balance sheet and the assets to be transferred is determined by similar factors; and
 - (b) on the basis of indications including past performance and applicable models, it can be reasonably expected that the performance of the assets to be further held on the balance sheet will not be significantly better during the time period referred to in Article 6(2) of Chapter 2 than the performance of the assets to be transferred.
2. [Note: Provision left blank]
3. An *originator* shall be deemed to have complied with Article 6(2) of Chapter 2 where, after the *securitisation*, there are no exposures left on the *originator's* balance sheet that are comparable to the securitised exposures, other than the exposures which the *originator* is already contractually committed to securitise, and provided that that fact has been clearly communicated to *investors*.

ARTICLE 22 DISCLOSURE OF THE LEVEL OF THE COMMITMENT TO MAINTAIN A NET ECONOMIC INTEREST

1. The retainer shall disclose to *investors* within the final offering document, prospectus, transaction summary or overview of the main features of the *securitisation* at least the following information regarding the level of its commitment to maintain a net economic interest in the *securitisation*:
 - (a) confirmation of the retainer's identity, whether it retains as *originator*, *sponsor* or *original lender* and, where the retainer is the *originator*, how it meets the requirements set out in the fifth subparagraph of Article 6(1) of Chapter 2 taking into account the principles set out in Article 2(6) of this Chapter;
 - (b) which of the modalities provided for in points (a), (b), (c), (d) or (e) of the second subparagraph of Article 6(3) of Chapter 2 has been applied to retain a net economic interest; and
 - (c) confirmation of the level of retention at origination and of the commitment to retain on an on-going basis, which shall relate only to the continuation of fulfilment of the original obligation and shall not require data on the current nominal or market value, or on any impairments or write-downs on the retained interest.
2. Where the exemptions referred to in paragraph 5 or 6 of Article 6 of Chapter 2 apply to a *securitisation* transaction, *firms* acting as *originator*, *sponsor* or *original lender* shall disclose within the final offering document, prospectus, transaction summary or overview of the main features of the *securitisation* information on the applicable exemption to *investors*.
3. The disclosure referred to in paragraphs 1 and 2 of this Article shall be appropriately documented within the final offering document, prospectus, transaction summary or overview of the main features of the *securitisation* and made publicly available, except in bilateral or private transactions where private disclosure is considered by the parties to be sufficient. The inclusion of a statement on the retention commitment in the prospectus for the securities issued under the *securitisation* programme shall be considered an appropriate means of fulfilling the requirement.

5. THE INFORMATION AND THE DETAILS OF A SECURITISATION TO BE MADE AVAILABLE BY THE ORIGINATOR, SPONSOR AND SSPE

SECTION 1 INFORMATION TO BE MADE AVAILABLE FOR ALL SECURITISATION

ARTICLE 2 INFORMATION ON UNDERLYING EXPOSURES

1. The information to be made available for a non-ABCP *securitisation* pursuant to Article 7(1)(a) of Chapter 2 is specified in:
 - (a) Annex II for loans to private households secured by residential real estate, regardless of the purpose of those loans;
 - (b) Annex III for loans for the purposes of acquiring commercial real estate or secured by commercial real estate;
 - (c) Annex IV for corporate underlying exposures, including underlying exposures to micro, small and medium-sized enterprises;
 - (d) Annex V for automobile underlying exposures, including both loans and leases to legal or natural persons backed by automobiles;

- (e) Annex VI for consumer underlying exposures;
- (f) Annex VII for credit card underlying exposures;
- (g) Annex VIII for leasing underlying exposures; and
- (h) Annex IX for underlying exposures that do not fall within any of the categories set out in points (a) to (g).

For the purposes of point (a), residential real estate means any immovable property, available for dwelling purposes (including buy-to-let housing or property), acquired, built or renovated by a private household and that does not qualify as commercial real estate.

For the purposes of point (b), commercial real estate means any income-producing real estate, either existing or under development, and excludes social housing and property owned by end-users.

- 1A. For the purposes of point (a) and point (b) of paragraph 1, a property that has mixed commercial and residential use must, where possible, be treated as two separate properties, one commercial and one residential. Where it is not possible to separate the uses in this manner, the property must be treated as being entirely residential or entirely commercial, whichever is the dominant use of the property.
- 1B. Except as provided in paragraphs 2 and 3, where a non-ABCP *securitisation* includes more than one of the types of underlying exposures listed in paragraph 1, the *reporting entity* for that *securitisation* must make available the information specified in the applicable Annex for each underlying exposure type.
- 1C. Where the pool of underlying exposures for a non-ABCP *securitisation* is comprised entirely of automobile underlying exposures, the information specified in Annex V must be provided in respect of the entire pool, regardless of whether the automobile underlying exposures are loans or leases.
- 1D. Except in the circumstances contemplated in paragraph 1C, where the pool of underlying exposures for a non-ABCP *securitisation* is comprised entirely of leasing underlying exposures, the information specified in Annex VIII must be provided in respect of the entire pool.
- 2. Where a non-ABCP *securitisation* includes more than one of the types of underlying exposures listed in paragraph 1, the *reporting entity* for that *securitisation* shall make available the information specified in the applicable Annex for each underlying exposure type.
- 3. The *reporting entity* for a non-performing exposure *securitisation* shall make available the information specified in:
 - (a) the Annexes referred to in points (a) to (h) of paragraph 1, as relevant to the underlying exposure type; and
 - (b) Annex X.

For the purposes of this paragraph, a 'non-performing exposure *securitisation*' means a non-ABCP *securitisation* the majority of whose *active underlying exposures*, measured in terms of outstanding principal balance as at the *data cut-off date*, are one of the following:

- (a) non-performing exposures as referred to in paragraphs 213 to 239 of Annex V, Part 2 to Commission Implementing Regulation (EU) No 680/2014 as this provision had effect immediately before *IP completion day*; or
- (b)
 - (i) credit impaired financial assets as defined in Appendix A to International Financial Reporting Standard 9 in Commission Regulation (EC) No 1126/2008 as this provision had effect immediately before *IP completion day*;

- (ii) credit impaired financial assets as defined in Appendix A to International Financial Reporting Standard 9 as contained in *UK-adopted international accounting standards*;
 - (iii) financial assets accounted for as credit impaired under national rules applying the Generally Accepted Accounting Principles (GAAP) based on Council Directive 86/635/EEC; or
 - (iv) financial assets accounted for as credit-impaired under *UK* generally accepted accounting principles.
4. The *reporting entity* for an *ABCP transaction* shall make available the information specified in Annex XI.
 5. For the purposes of this Article, the information to be made available pursuant to paragraphs 1 to 4 of this Article shall be on:
 - (a) *active underlying exposures* as at the *data cut-off date*; and
 - (b) *inactive underlying exposures* that were *active underlying exposures* at the immediately preceding *data cut-off date*.

ARTICLE 3 INFORMATION ON INVESTOR REPORTS

1. The *reporting entity* for a non-ABCP *securitisation* shall make available the information on *investor* reports specified in Annex XII.
2. The *reporting entity* for an ABCP *securitisation* shall make available the information on *investor* reports specified in Annex XIII.

ARTICLE 4 INFORMATION GRANULARITY

1. The *reporting entity* shall make available the information specified in Annexes II to X and XII on the following:
 - (a) underlying exposures, in relation to each individual underlying exposure;
 - (b) collateral, where any of the following conditions is met and in respect of each item of collateral securing each underlying exposure:
 - (i) the underlying exposure is secured by a guarantee;
 - (ii) the underlying exposure is secured by physical or financial collateral; or
 - (iii) the lender may unilaterally create security over the underlying exposure without the need for any further approval from the obligor or guarantor;
 - (c) tenants, for each of the three largest tenants occupying a commercial real estate property, measured as the total annual rent payable by each tenant occupying the property;
 - (d) historical collections, for each underlying exposure and for each *month* in the period from the *data cut-off date* up to 36 *months* prior to that date;
 - (e) cash flows, for each in flow or outflow item in the *securitisation*, as set out in the applicable priority of receipts or payments as at the *data cut-off date*; and
 - (f) tests/events/triggers, for each test/event/trigger that triggers changes in the priority of payments or the replacement of any counterparties.

For the purposes of points (a) and (d), securitised loan parts shall be treated as individual underlying exposures.

For the purposes of point (b), each property acting as security for loans referred to in points (a) and (b) of Article 2(1) of this Chapter shall be treated as a single item of collateral.

2. The *reporting entity* shall make available the information specified in Annexes XI and XIII on the following:
 - (a) *ABCP transactions*, for as many *ABCP transactions* that exist in the *ABCP programme* as at the *data cut-off date*;
 - (b) each *ABCP programme* that is funding the *ABCP transactions* for which information is made available pursuant to point (a), as at the *data cut-off date*;
 - (c) tests/events/triggers, for each test/event/trigger in the *ABCP securitisation* that triggers changes in the priority of payments or the replacement of any counterparties; and
 - (d) underlying exposures, for each *ABCP transaction* on which information is made available pursuant to point (a) and for each exposure type that is present in that *ABCP transaction* as at the *data cut-off date*, in accordance with the list in field IVAL5 in Annex XI.

SECTION 2 INFORMATION TO BE MADE AVAILABLE FOR SECURITISATIONS FOR WHICH A PROSPECTUS HAS TO BE DRAWN UP (PUBLIC SECURITISATIONS)

ARTICLE 5 ITEM CODES

1. *Reporting entities* shall assign item codes to the information made available to *securitisation repositories*. For this purpose, *reporting entities* shall assign the item code specified in Table 3 of Annex I that best corresponds to that information.

ARTICLE 6 INSIDE INFORMATION

1. The *reporting entity* for a non-ABCP *securitisation* shall make available the inside information specified in Annex XIV.
2. The *reporting entity* for an ABCP *securitisation* shall make available the inside information specified in Annex XV.

ARTICLE 7 INFORMATION ON SIGNIFICANT EVENTS

1. The *reporting entity* for a non-ABCP *securitisation* shall make available the information on significant events specified in Annex XIV.
2. The *reporting entity* for an ABCP *securitisation* shall make available the information on significant events specified in Annex XV.

ARTICLE 8 INFORMATION GRANULARITY

1. The *reporting entity* shall make available the information specified in Annex XIV on the following:
 - (a) the *tranches/bonds* in the *securitisation*, for each *tranche* issuance in the *securitisation* or other instrument to which an International Securities Identification Number has been assigned and for each subordinated loan in the *securitisation*;
 - (b) accounts, for each account in the *securitisation*;

- (c) counterparties, for each counterparty in the *securitisation*;
- (d) where the *securitisation* is a *synthetic securitisation* that is a non-ABCP *securitisation*:
 - (i) synthetic coverage, for as many protection arrangements as exist in the *securitisation*; and
 - (ii) issuer collateral, for each individual collateral asset held by the *SSPE* on behalf of *investors* that exists for the given protection arrangement; and
- (e) where the *securitisation* is a Collateralised Loan Obligation (CLO) non-ABCP *securitisation*:
 - (i) the CLO manager, for each CLO manager in the *securitisation*; and
 - (ii) the CLO *securitisation*.

For the purposes of point (d)(ii), each asset for which an International Securities Identification Number exists shall be treated as an individual collateral asset, cash collateral of the same currency shall be aggregated and treated as an individual collateral asset, and cash collateral of different currencies shall be reported as separate collateral assets.

2. The *reporting entity* shall make available the information specified in Annex XV on the following:
 - (a) *ABCP transactions*, for as many *ABCP transactions* that exist in the *ABCP programme* as at the *data cut-off date*;
 - (b) *ABCP programmes*, for as many *ABCP programmes* that, at the *data cut-off date*, are funding the *ABCP transactions* on which information is made available pursuant to point (a);
 - (c) the *tranches/bonds* in the *ABCP programme*, for each *tranche* or commercial paper issuance in the *ABCP programme* or other instrument to which an International Securities Identification Number has been assigned and for each subordinated loan in the *ABCP programme*;
 - (d) accounts, for each account in the *ABCP securitisation*; and
 - (e) counterparties, for each counterparty in the *ABCP securitisation*.

SECTION 3 COMMON PROVISIONS

ARTICLE 9 INFORMATION COMPLETENESS AND CONSISTENCY

1. The information made available pursuant to Article 7 of Chapter 2 and this Chapter shall be complete and consistent.
2. Where the *reporting entity* identifies factual errors in any information that it has made available pursuant to Article 7 of Chapter 2 and this Chapter, it shall make available, without undue delay, a corrected report of all information about the *securitisation* required under Article 7 of Chapter 2 and this Chapter.
3. Where permitted in the corresponding Annex, the *reporting entity* may report one of the following 'No Data Option' (ND) values corresponding to the reason justifying the unavailability of the information to be made available:
 - (a) value 'ND1', where the required information has not been collected because it was not required by the lending or underwriting criteria at the time of origination of the underlying exposure;

- (b) value 'ND2', where the required information has been collected at the time of origination of the underlying exposure but is not loaded into the reporting system of the *reporting entity* at the *data cut-off date*;
- (c) value 'ND3', where the required information has been collected at the time of origination of the underlying exposure but is loaded into a separate system from the reporting system of the *reporting entity* at the *data cut-off date*;
- (d) value 'ND4-YYYY-MM-DD', where the required information has been collected but it will only be possible to make it available at a date taking place after the *data cut-off date*. 'YYYY-MM-DD' shall respectively refer to the numerical year, *month* and day corresponding to the future date at which the required information will be made available; or
- (e) value 'ND5', where the required information is not applicable to the item being reported.

For the purposes of this paragraph, the report of any ND values shall not be used to circumvent the requirements in this Article 7 of Chapter 2 and this Chapter.

Upon request by the *PRA*, the *reporting entity* shall provide to the *PRA* details of the circumstances that justify the use of those ND values.

ARTICLE 10 INFORMATION TIMELINESS

1. Where a *securitisation* is not an ABCP *securitisation*, the information made available pursuant to this Article 7 of Chapter 2 and this Chapter shall not have a *data cut-off date* later than two calendar *months* prior to the submission date.
2. Where a *securitisation* is an ABCP *securitisation*:
 - (a) the information specified in Annex XI and in the 'transaction information section' in Annexes XIII and XV shall not have a *data cut-off date* later than two calendar *months* prior to the submission date; and
 - (b) the information specified in all sections of Annexes XIII and XV other than the 'transaction information section' shall not have a *data cut-off date* later than one calendar *month* prior to the submission date.

ARTICLE 11 UNIQUE IDENTIFIERS

1. Each *securitisation* shall be assigned a unique identifier composed of the following elements, in sequential order:
 - (a) the Legal Entity Identifier of the *reporting entity*;
 - (b) the letter 'A' where the *securitisation* is an ABCP *securitisation* or the letter 'N' where the *securitisation* is a non-ABCP *securitisation*;
 - (c) the four-digit year corresponding to:
 - (i) the year in which the first securities of the *securitisation* were issued, where the *securitisation* is a non-ABCP *securitisation*; or
 - (ii) the year in which the first securities within the ABCP *programme* were issued, where the *securitisation* is an ABCP *securitisation*; and
 - (d) the number 01 or, where there is more than one *securitisation* with the same identifier as referred to in points (a), (b) and (c), a two-digit sequential number corresponding to the

order in which information about each *securitisation* is made available. The order of simultaneous *securitisations* shall be discretionary.

2. Each *ABCP transaction* in an *ABCP programme* shall be assigned a unique identifier composed of the following elements, in sequential order:
 - (a) the Legal Entity Identifier of the *reporting entity*;
 - (b) the letter 'T';
 - (c) the four-digit year corresponding to the first closing date of the *ABCP transaction*; and
 - (d) the number 01 or, where there is more than one *ABCP transaction* with the same identifier as referred to in points (a), (b) and (c) of this paragraph, a two-digit sequential number corresponding to the order of the first closing date of each *ABCP transaction*. The order of simultaneous *ABCP transactions* shall be discretionary.
3. Unique identifiers shall not be amended by the *reporting entity*.

ARTICLE 12 CLASSIFICATIONS REPORTING

1. The information relating to the System of Accounts classification shall be made available using the codes set out in Table 1 of Annex I.
2. The information relating to the Servicer Watchlist classifications shall be made available using the codes set out in Table 2 of Annex I.

SECTION 4 TEMPLATES

ANNEXES

1. Annex I (Classifications reporting and item codes) can be found [here](#).
2. Annex II (Underlying Exposures Information – Residential Real Estate (RRE)) can be found [here](#).
3. Annex III (Underlying Exposures Information – Commercial Real Estate (CRE)) can be found [here](#).
4. Annex IV (Underlying Exposures Information – Corporate) can be found [here](#).
5. Annex V (Underlying Exposures Information – Automobile) can be found [here](#).
6. Annex VI (Underlying Exposures Information – Consumer) can be found [here](#).
7. Annex VII (Underlying Exposures Information – Credit Card) can be found [here](#).
8. Annex VIII (Underlying Exposures Information – Leasing) can be found [here](#).
9. Annex IX (Underlying Exposures Information – Esoteric) can be found [here](#).
10. Annex X (Underlying Exposures Information – Add-On for Non-Performing Exposures) can be found [here](#).
11. Annex XI (Underlying Exposures Information – Asset-Backed Commercial Paper) can be found [here](#).
12. Annex XII (Investor Report Information – Non-Asset Backed Commercial Paper Securitisation) can be found [here](#).

13. Annex XIII (Investor Report Information – Asset-Backed Commercial Paper Securitisation) can be found [here](#).
14. Annex XIV (Inside Information or Significant Event Information – Non-Asset Backed Commercial Paper Securitisation) can be found [here](#).
15. Annex XV (Inside Information or Significant Event Information – Asset Backed Commercial Paper Securitisation) can be found [here](#).

6. FORMAT AND STANDARDISED TEMPLATES FOR MAKING AVAILABLE THE INFORMATION AND DETAILS OF A SECURITISATION BY THE ORIGINATOR, SPONSOR AND SSPE

SECTION 1 TEMPLATES FOR ALL SECURITISATIONS

ARTICLE 1 UNDERLYING EXPOSURES TEMPLATES

1. The information referred to in Article 2(1) and (2) of Chapter 5 shall be made available using the following templates:
 - (a) the template set out in Annex II to this Chapter for loans to private households secured by residential real estate, regardless of the purpose of those loans;
 - (b) the template set out in Annex III to this Chapter for loans for the purposes of acquiring commercial real estate or secured by commercial real estate;
 - (c) the template set out in Annex IV to this Chapter for corporate underlying exposures, including underlying exposures to micro, small and medium-sized enterprises;
 - (d) the template set out in Annex V to this Chapter for automobile underlying exposures, including loans and leases to legal or natural persons that are backed by automobiles;
 - (e) the template set out in Annex VI to this Chapter for consumer underlying exposures;
 - (f) the template set out in Annex VII to this Chapter for credit card underlying exposures;
 - (g) the template set out in Annex VIII to this Chapter for leasing underlying exposures; and
 - (h) the template set out in Annex IX to this Chapter for underlying exposures that do not fall within any of the categories set out in points (a) to (g).
2. The information referred to in Article 2(3) of Chapter 5 shall be made available using the following templates:
 - (a) the templates set out in paragraph 1 of this Article, as relevant to the underlying exposure type; and
 - (b) the template set out in Annex X for non-performing exposure securitisations as referred to in the second subparagraph of Article 2(3) of Chapter 5.
3. The information referred to in Article 2(4) of Chapter 5 shall be made available using the template set out in Annex XI.

ARTICLE 2 INVESTOR REPORT TEMPLATES

1. The information referred to in Article 3(1) of Chapter 5 shall be made available using the template set out in Annex XII.

2. The information referred to in Article 3(2) of Chapter 5 shall be made available using the template set out in Annex XIII.

SECTION 2 TEMPLATES FOR SECURITISATIONS FOR WHICH A PROSPECTUS HAS TO BE DRAWN UP (PUBLIC SECURITISATIONS)

ARTICLE 3 INSIDE INFORMATION TEMPLATES

1. The information referred to in Article 6(1) of Chapter 5 shall be made available using the template set out in Annex XIV.
2. The information referred to in Article 6(2) of Chapter 5 shall be made available using the template set out in Annex XV.

ARTICLE 4 SIGNIFICANT EVENT TEMPLATES

1. The information referred to in Article 7(1) of Chapter 5 shall be made available using the template set out in Annex XIV.
2. The information referred to in Article 7(2) of Chapter 5 shall be made available using the template set out in Annex XV.

SECTION 3 COMMON PROVISIONS

ARTICLE 5 FORMAT OF INFORMATION

1. The format of the information provided in the templates set out in Annexes I to XV shall conform to the corresponding format set out in Table 1 of Annex I.
2. The information shall be made available in an electronic and machine-readable form via common XML templates.

SECTION 4 TEMPLATES

ANNEXES

1. Annex I (Field format) can be found [here](#).
2. Annex II (Underlying Exposures Information – Residential Real Estate (RRE)) can be found [here](#).
3. Annex III (Underlying Exposures Information – Commercial Real Estate (CRE)) can be found [here](#).
4. Annex IV (Underlying Exposures Information – Corporate) can be found [here](#).
5. Annex V (Underlying Exposures Information – Automobile) can be found [here](#).
6. Annex VI (Underlying Exposures Information – Consumer) can be found [here](#).
7. Annex VII (Underlying Exposures Information – Credit Card) can be found [here](#).
8. Annex VIII (Underlying Exposures Information – Leasing) can be found [here](#).
9. Annex IX (Underlying Exposures Information – Esoteric) can be found [here](#).

10. Annex X (Underlying Exposures Information – Add-On for Non-Performing Exposures) can be found [here](#).
11. Annex XI (Underlying Exposures Information – Asset-Backed Commercial Paper) can be found [here](#).
12. Annex XII (Investor Report Information – Non-Asset Backed Commercial Paper Securitisation) can be found [here](#).
13. Annex XIII (Investor Report Information – Asset-Backed Commercial Paper Securitisation) can be found [here](#).
14. Annex XIV (Inside Information or Significant Event Information – Non-Asset Backed Commercial Paper Securitisation) can be found [here](#).
15. Annex XV (Inside Information or Significant Event Information – Asset Backed Commercial Paper Securitisation) can be found [here](#).

Annex B

Amendments to the Liquidity Coverage Ratio (CRR) Part

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

2 **RULES ON STANDARDS FOR THE LIQUIDITY COVERAGE REQUIREMENT FOR CREDIT INSTITUTIONS (PREVIOUSLY REGULATION (EU) NO 2015/61)**

...

ARTICLE 13 LEVEL 2B SECURITISATIONS

1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:
 - (a) the designation 'STS' or 'simple, transparent and standardised', or a designation that refers directly or indirectly to those terms, is permitted to be used for the securitisation in accordance with ~~Regulation (EU) 2017/2402 of the European Parliament and of the Council~~ regulation 12 of the Securitisation Regulations 2024 (SI 2024/102) and is being so used;

...

Annex C

Amendments to the Non-Performing Exposures Securitisation (CRR) Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 ...

Qualifying NPE securitisation

means an *NPE securitisation* that is a ~~traditional securitisation as defined in point (9) of Article 2 of Regulation (EU) 2017/2402~~ traditional securitisation where the *non-refundable purchase price discount* is at least 50% of the outstanding amount of the underlying exposures at the time they were transferred to the *SSPE*.

SSPE

has the meaning given by point (2) of Article 2 of Regulation (EU) 2017/2402 in the Securitisation Part.

traditional securitisation

has the meaning given in the Securitisation Part.

...

PRA RULEBOOK: SOLVENCY II FIRMS: MATCHING ADJUSTMENT 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).

The PRA also makes this instrument in the exercise of its powers under regulation 7 of the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (2023/1347).

- 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 Firms: Matching Adjustment Instrument 2024

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

Part	Annex
Glossary	A
Matching Adjustment	B
Technical Provisions	C
Conditions Governing Business	D

Commencement

- D. This instrument comes into force on 30 June 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Matching Adjustment Instrument 2024.

By order of the Prudential Regulation Committee

4 June 2024

Annex A

Amendments to the Glossary Part

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

...

asset type

means a category of assets that have similar features and/or similar methodologies for the purposes of determining the *credit rating* or internal credit assessment for that type of asset.

assigned asset

means an asset contained in the *relevant portfolio of assets*, that falls within the scope of Matching Adjustment 4.4(1).

...

basic relevant risk-free interest rate term structure

means the *relevant risk-free interest rate term structure* without:

- (1) a *matching adjustment*;
- (2) a *volatility adjustment*, or
- (3) a *risk-free interest rate transitional measure*.

...

cash-flows that are not fixed

means any cash-flows that are not fixed or that are capable of being changed by *issuers* of the assets or any third parties, but excluding any cash-flows that fall within the scope of regulation 4(9)(b) or (c) of the *IRPR regulations*.

...

credit quality step

means the credit quality steps 0 to 6 set out in the Annex to Commission Implementing Regulation 2016/1800.

credit quality step pair

means a sequential pair of *credit quality steps*, paired in the order in which they are set out in the Annex to Commission Implementing Regulation 2016/1800.

credit rating

has the meaning given to that term in regulation 2(1) of the *IRPR regulations*.

credit rating agency

has the meaning given to that term in Regulation 2(1) of the *IRPR regulations*.

...

default

has the meaning given to that term in Article 4(4) of Commission Implementing Regulation 2016/1799.

...

expense risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of the expenses incurred in servicing contracts of insurance or reinsurance contracts.

...

group death in service dependants' annuity

means a contract of insurance covering a specified group of persons which provides benefits in the form of regular payments to nominated dependant(s) upon the death of a person in that group, to the extent of and in accordance with the terms of that contract of insurance.

...

health revision risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of the revision rates applied to annuities, due to changes in inflation, the legal environment or in the state of health of the person insured.

...

income protection policy

means a contract of insurance covering a person or specified group of persons that provides benefits in the form of regular payments to that person or those persons if they are unable, or have reduced capacity, to work because of illness or injury, to the extent of and in accordance with the terms of that contract of insurance.

...

IRPR regulations

means the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (2023/1347).

...

life revision risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.

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 or reinsurance obligations

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

...

longevity risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance obligations.

...

matching adjustment

means the adjustment to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of a *relevant portfolio of insurance or reinsurance obligations* in accordance with:

- (1) ~~Technical Provisions 6 and 7~~ the Matching Adjustment Part; and
- (2) ~~the Solvency II Regulations adopted under Article 86(1)(h) — (i) of the Solvency II Directive; [deleted]~~
- (3) ~~for the purposes of calculating technical provisions as at a point in time falling before IP completion day, the relevant technical information made by EIOPA under Article 77e(1)(b) of the Solvency II Directive and adopted in the Solvency II Regulations under Article 77e(2) of the Solvency II Directive; and [deleted]~~
- (4) ~~for the purposes of calculating technical provisions as at a point in time falling on or after IP completion day, the relevant technical information published by the PRA in accordance with regulation 4B(1) of the Solvency 2 Regulations~~ regulation 3(1) of the IRPR regulations.

matching adjustment approval

~~means the approval granted to a firm by the PRA to permit it to apply a matching adjustment for the purposes of calculating the best estimate in relation to a relevant portfolio of insurance and reinsurance obligations.~~

matching adjustment eligibility conditions

means:

- (1) the conditions contained in regulation 4(3) to (9) and (11) of the IRPR regulations; and
- (2) the conditions contained in 2.2 to 2.4 (inclusive) of the Matching Adjustment Part.

matching adjustment permission

means the permission granted to a firm by the PRA pursuant to section 138BA of FSMA to apply a matching adjustment for the purposes of calculating the best estimate in relation to a relevant portfolio of insurance or reinsurance obligations.

matching adjustment permission application

means an application by a firm for a matching adjustment permission.

matching adjustment portfolio

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

...

mortality risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance obligations.

...

rating notch

means, in respect of each *credit quality step*, the additional sub-categories (if relevant) which differentiate the relative credit quality of assets within that *credit quality step*.

...

recovery time risk

means the risk of loss, or of adverse change in the value of insurance obligations, resulting from changes in the expected time until the cessation of payments to those currently unable to work due to illness, injury or disability.

...

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) of the *IRPR regulations*, which is assigned to cover the *best estimate* of those insurance or *reinsurance obligations*.

relevant portfolio of insurance or reinsurance obligations

means a portfolio of *long-term insurance or reinsurance obligations*~~insurance or reinsurance obligations falling within any long-term insurance business class, including annuities stemming from a contract of general insurance~~, in respect of which:

- (1) a firm has been granted a ~~matching adjustment approval~~ *matching adjustment permission*; and
- (2) for the purposes of the Matching Adjustment Part only, a firm is applying for a *matching adjustment permission*.

relevant risk-free interest rate term structure

means the relevant risk-free interest rate term structure, in accordance with:

- (1) Technical Provisions 5 and 8.3 to 8.4; and
- (2) ~~the Solvency II Regulations adopted under Article 86 of the Solvency II Directive; and~~~~[deleted]~~
- (3) ~~for the purposes of calculating technical provisions as at a point in time falling before IP completion day, the relevant technical information made by EIOPA under Article 77e(1)(a) of the Solvency II Directive and adopted in Solvency II Regulations under Article 77e(2) of the Solvency II Directive;~~~~[deleted]~~
- (4) ~~for the purposes of calculating technical provisions as at a point in time falling on or after IP completion day, the relevant technical information made~~published by the PRA in accordance with ~~regulation 4B(1) of the Solvency 2 Regulations~~regulation 3(1) of the *IRPR regulations*.

...

revision risk

means *life revision risk* and/or *health revision risk*, as the context requires.

...

underwriting risk

means the risk of loss or of adverse change in the value of insurance obligations~~liabilities~~, due to inadequate pricing and provisioning assumptions.

...

volatility adjustment

means the adjustment to the *relevant risk-free interest rate term structure* to calculate the *best estimate* in accordance with:

- (1) the *Solvency II Regulations* adopted under Article 86(1)(j) of the *Solvency II Directive*; and
- (2) ~~for the purposes of calculating technical provisions as at a point in time falling before *IP completion day*, in accordance with the relevant technical information made by EIOPA under Article 77e(1)(c) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*; or [deleted]~~
- (3) ~~for the purposes of calculating technical provisions as at a point in time on or after *IP completion day*, in accordance with the relevant technical information published by the PRA in accordance with regulation 4B(1) of the *Solvency 2 Regulations*~~regulation 3(1) of the *IRPR regulations*.

...

Annex B**Matching Adjustment Part**

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

Part**MATCHING ADJUSTMENT**

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ELIGIBILITY TO APPLY A MATCHING ADJUSTMENT**
- 3. MATCHING ADJUSTMENT PERMISSIONS**
- 4. CALCULATION OF THE MATCHING ADJUSTMENT**
- 5. ASSETS WITH CASH-FLOWS THAT ARE NOT FIXED**
- 6. REQUIREMENT FOR THE FUNDAMENTAL SPREAD TO REFLECT DIFFERENCES IN QUALITY BY RATING NOTCH**
- 7. INTERNAL CREDIT ASSESSMENTS AND CREDIT RATINGS**
- 8. ADDITIONS TO THE FUNDAMENTAL SPREAD IN RESPECT OF ASSETS WITH CASH-FLOWS THAT ARE HIGHLY PREDICTABLE**
- 9. ATTESTATION REQUIREMENTS**
- 10. INTERNAL GOVERNANCE FOR THE ATTESTATION**
- 11. DISCLOSURE OF THE ATTESTATION**
- 12. FORM OF THE ATTESTATION**
- 13. ON-GOING COMPLIANCE WITH ELIGIBILITY CONDITIONS**

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*;
- (2) in accordance with Insurance General Application 3.1, the *Society*; and
- (3) in accordance with Insurance General Application 3.2, *managing agents*.

1.2 In this part, the following definitions shall apply:

attestation reference date

means:

- (1) where 9.1(2)(a) applies, the effective date of the *firm's SFCR*; or
- (2) where 9.1(2)(b) applies, a date no later than three *months* after the material change in risk profile.

eligible element

means a portion of insurance or *reinsurance* obligations forming part of a wider *contract of insurance* or *reinsurance contract* and which:

- (1) comprises:
 - (a) the guaranteed element of a *with-profits policy* that is either an immediate annuity or a deferred annuity; or
 - (b) the in-payment element of a *group death in service dependants' annuity* or an *income protection policy*,

in each case, where the element can be organised and managed separately in accordance with regulation 4(6) of the *IRPR regulations*; and
- (2) would otherwise meet the *matching adjustment eligibility conditions*, but for the fact that it forms part of a *contract of insurance* or *reinsurance contract* which does not so comply, when taken as a whole.

exposure limit

means any limit that forms part of the *firm's matching adjustment permission* in respect of the inclusion of a particular asset or assets in the *relevant portfolio of assets*.

highly predictable

has the meaning given to that term in Matching Adjustment 5.3.

2 ELIGIBILITY TO APPLY A MATCHING ADJUSTMENT

2.1 A *firm* must not apply a *matching adjustment* to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations unless it has a *matching adjustment permission*.

2.2 The conditions referred to in regulation 4(11) of the *IRPR regulations* are:

- (1) except as set out in 2.5, the contracts underlying the *relevant portfolio of insurance or reinsurance obligations* do not give rise to future premium payments;

- (2) the only *underwriting risks* connected to the *relevant portfolio of insurance or reinsurance obligations* are *longevity risk*, *expense risk*, *revision risk*, *mortality risk* or *recovery time risk*;
- (3) where the *underwriting risk* connected to the *relevant portfolio of insurance or reinsurance obligations* includes *mortality risk*, the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations* does not increase by more than 5% under a *mortality risk* stress that is calibrated in accordance with Chapter 3 of the Solvency Capital Requirement – General Provisions Part and otherwise complies with 2.4;
- (4) the contracts underlying the *relevant portfolio of insurance or reinsurance obligations* include:
 - (a) no options for the *policyholder*; or
 - (b) only a surrender option with a *surrender value* not exceeding the value of the assets, valued in accordance with Valuation 2.1 and 2.2, covering the insurance or *reinsurance obligations* at the time the surrender option is exercised;
- (5) the *relevant portfolio of assets* cannot be used to cover losses arising from the other activities of the *firm*; and
- (6) the *relevant portfolio of assets* and each individual asset contained in it meets the requirements of the prudent person principle contained in Chapters 2 and 3 of the Investments Part.

2.3 For the purposes of this Part, the insurance or *reinsurance obligations* of an insurance or *reinsurance contract* must not be split into different parts when composing the *relevant portfolio of insurance or reinsurance obligations*, other than in the case of an *eligible element*.

2.4

- (1) The *mortality risk* stress referred to in 2.2(3) shall be the more adverse of the following two scenarios in terms of its impact on *basic own funds*:
 - (a) an instantaneous permanent increase of 15% in the mortality rates used for the calculation of the *best estimate*; or
 - (b) an instantaneous increase of 0.15 percentage points in the mortality rates (expressed as percentages) which are used in the calculation of *technical provisions* to reflect the mortality experience in the following 12 *months*.
- (2) For the purpose of (1) the increase in mortality rates shall only apply to those *policies* for which the increase in mortality rates leads to an increase in *technical provisions*, taking into account the following:
 - (a) multiple *policies* in respect of the same insured *person* may be treated as if they were one *policy*; and
 - (b) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Article 35 of Commission Delegated Regulation (Solvency II) 2015/35, the identification of the *policies* for which *technical provisions* increase under an increase of mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result which is not materially different.
- (3) With regard to *reinsurance obligations*, the identification of the *policies* for which *technical provisions* increase under an increase of mortality rates shall apply to the underlying insurance *policies* only and shall be carried out in accordance with (2).

2.5 The condition set out in 2.2(1) does not apply in respect of an *eligible element* specified in 1.2 *eligible element* (1)(b).

[Note: In accordance with regulation 4(11) of the *IRPR regulations*, this Chapter sets out *matching adjustment eligibility conditions* in addition to those set out in regulation 4(3) to (9) and (11) of the *IRPR regulations*, under which a *firm* is eligible to apply a *matching adjustment*]

3 MATCHING ADJUSTMENT PERMISSIONS

- 3.1 A *firm* making a *matching adjustment permission application* must confirm to the *PRA* in writing and submit, as a minimum, documentary evidence that demonstrates that the *relevant portfolio of assets* and *relevant portfolio of insurance or reinsurance obligations*, and, if the context requires, the *firm*, satisfies the *matching adjustment eligibility conditions*.
- 3.2 A *firm* that applies the *matching adjustment* to a *relevant portfolio of insurance or reinsurance obligations* must not revert back to the approach that does not include a *matching adjustment*.

4 CALCULATION OF THE MATCHING ADJUSTMENT

- 4.1 This Chapter applies to a *firm* that has been granted a *matching adjustment permission*.
- 4.2 A *firm* with a *matching adjustment permission* must calculate the *matching adjustment* in accordance with 4.3 to 4.8.
- 4.3 For each currency the *matching adjustment* must be equal to the difference of:
- (1) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the portfolio of *assigned assets*; and
 - (2) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations* where the time value of money is taken into account using the *basic relevant risk-free interest rate term structure*.
- 4.4 For the purpose of the calculation referred to in 4.3:
- (1) *assigned assets* only includes assets whose expected cash-flows are required to replicate the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, excluding any assets in excess of that;
 - (2) valuations must be calculated in accordance with the Valuation Part.
- 4.5 In 4.4(1), the 'expected cash-flow' of an asset means the cash-flow of the asset adjusted to allow for the probability of default of the asset that corresponds to the element of the fundamental spread set out in 4.10(1) or, where no reliable credit spread can be derived from the default statistics, the portion of the long term average of the spread over the *basic relevant risk-free interest rate term structure* (as provided in 4.11 and 4.12).
- 4.6 The *matching adjustment* must not include the fundamental spread (as calculated in accordance with 4.10 to 4.17) reflecting the risks retained by the *firm*.
- 4.7 The deduction of the fundamental spread under 4.6 from the result of the calculation set out in 4.3 must include only the portion of the fundamental spread that has not already been reflected in the adjustment to the cash-flows of the assigned portfolio of assets in accordance with 4.3 to 4.5.
- 4.8 The fundamental spread referred to in 4.6 and 4.7 must be calculated in a transparent, prudent, reliable and objective manner that is consistent over time and based on relevant indices where available.

- 4.9 The fundamental spread must be calculated in accordance with 4.10 to 4.17.
- 4.10 The fundamental spread must be equal to the sum of the following:
- (1) the credit spread corresponding to the probability of default of the assets; and
 - (2) the credit spread corresponding to the expected loss resulting from downgrading of the assets.
- 4.11 For exposures to the central government of the *United Kingdom* and the *Bank of England*, where the fundamental spread would otherwise be lower than 30% of the long-term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets (the 'average spread'), the fundamental spread must be 30% of the average spread.
- 4.12 For assets other than exposures to the central government of the *United Kingdom* and the *Bank of England*, where the fundamental spread would otherwise be lower than 35% of the long-term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets (the 'average spread'), the fundamental spread must be 35% of the average spread.
- 4.13 For the purposes of 4.10 to 4.12:
- (1) the calculation of the 'credit spread' must be based on the assumption that in case of default 30% of the market value of the assets can be recovered;
 - (2) the 'probability of default' must be based on long-term default statistics that are relevant for the asset in relation to its duration, credit quality and asset class;
 - (3) the 'expected loss' must be based on long-term statistics that are relevant to changes in the credit quality of the asset and correspond to the probability-weighted loss the *firm* incurs where the asset is downgraded to a lower credit quality and is replaced immediately afterwards, and the calculation of the expected loss must be based on the assumption that the replacing asset meets all of the following criteria:
 - (a) the replacing asset has the same cash-flow pattern as the replaced asset before downgrade;
 - (b) the replacing asset belongs to the same asset class as the replaced asset; and
 - (c) the replacing asset has the same credit quality as the replaced asset before downgrade or a higher one;
 - (4) the 'long-term average of the spread over the risk-free interest rate' must be based on data relating to the previous 30 years;
 - (5) the methods to derive the fundamental spread of a bond must be the same for each currency and each country and may be different for government bonds and for other bonds.
- 4.14 For the purposes of 4.13(2) and (3), where no reliable credit spread can be derived from the default statistics, the fundamental spread must be equal to the portion of the long-term average of the spread over the risk-free interest rate set out in 4.11 or 4.12.
- 4.15 Where part of the data referred to in 4.13(4) is not available or where the available data is not reliable, constructed data based on prudent assumptions may be used; and the constructed data must be based on available and reliable data relating to the previous 30 years.
- 4.16 A *firm* must increase the fundamental spread calculated under 4.10 to 4.15 in accordance with 8.2.

- 4.17 A *firm* may increase the fundamental spread calculated under 4.10 to 4.16 where necessary to ensure it covers all risks retained by the *firm*.

[Note: This Chapter replicates the provisions for the calculation of the *matching adjustment* and fundamental spread contained in regulations 5 and 6 of the *IRPR regulations*]

[Note: The *IRPR regulations* refer to the 'assigned portfolio of assets'. This has the same meaning as the *relevant portfolio of assets*, except for regulation 5(5) which is replicated in 4.7 where the 'assigned portfolio of assets' is referring to *assigned assets* as set out at 4.3 and 4.4]

5 ASSETS WITH CASH-FLOWS THAT ARE NOT FIXED

- 5.1 For the purpose, and without limiting the generality, of the condition in regulation 4(9) of the *IRPR regulations*, assets with *cash-flows that are not fixed* are only capable of being included in a *firm's relevant portfolio of assets* without giving rise to material risks to the quality of matching if the *cash-flows that are not fixed* are *highly predictable*.
- 5.2 For the purposes of the condition in regulation 4(9)(a)(ii) of the *IRPR regulations*, the proportion of a *firm's relevant portfolio of assets* that comprises assets with *highly predictable* cash-flows is subject to the following limits:
- (1) no more than 10% of the *matching adjustment* benefit is attributable to an asset with *highly predictable* cash-flows, either on its own or when taken together with other assets with *highly predictable* cash-flows in the *relevant portfolio of assets*; and
 - (2) any applicable *exposure limit*.
- 5.3 The cash-flows of an asset are *highly predictable* for the purposes of 5.1 where:
- (1) the contractual terms of the asset provide for a bounded range of variability in respect of the timing and amount of the cash-flows; and
 - (2) failure to meet such contractual terms is a *default*.
- 5.4 In assessing asset cash-flows for the purposes of 5.3, a *firm* must:
- (1) base the best estimate of the cash-flows on the contractual payments of the asset;
 - (2) use assumptions consistent with the economics of the asset; and
 - (3) where expert judgment is used in determining the cash-flows, ensure that it is subject to the level of controls specified in Article 2 of Commission Delegated Regulation (Solvency II) 2015/35.
- 5.5 For the purposes of 5.2(1), the *matching adjustment* benefit means, where a *firm* has a *matching adjustment permission*, an amount equal to the impact on its *best estimate* of the scenario set out in Conditions Governing Business 3.2(2)(c) (and for the purposes of this calculation, ignoring any impact of rule 13.5).

6 REQUIREMENT FOR THE FUNDAMENTAL SPREAD TO REFLECT DIFFERENCES IN QUALITY BY RATING NOTCH

- 6.1 Where an *assigned asset* has a *credit rating* or internal credit assessment of a comparable standard (within the meaning of 7.1(1)) mapping to *credit quality steps* 1 to 5 (inclusive), a *firm* with a *matching adjustment permission* must make an adjustment to the fundamental spread derived from the *credit quality step* attributed to that asset in order to reflect the corresponding *rating notch*, in accordance with 6.3 and 6.4.
- 6.2 The obligation in 6.1 does not apply in the circumstances described in 6.5.
- 6.3 A *firm* must derive the adjustment referred to in 6.1 for at least:

- (1) the probability of default referred to in 4.5; and
 - (2) the overall fundamental spread,
- in each case, applicable to the cash-flows of that asset.

6.4 A *firm* must:

- (1) derive the adjustments referred to in 6.3 using linear interpolation of the information published by the *PRA* under regulation 3(1) of the *IRPR regulations*;
- (2) use linear interpolation for each consecutive *credit quality step pair*, and
- (3) assume for the purposes of this Chapter that each intermediate *rating notch* is evenly spread between each consecutive *credit quality step pair*.

6.5 Where there is no *rating notch* available for a particular asset falling within the scope of 6.1:

- (1) a *firm* must not adjust the fundamental spread, or component thereof, applied to the cash-flows of that asset, other than to account for additions to the fundamental spread in accordance with 4.16 and/or 4.17, as applicable; and
- (2) a *firm* must consider the appropriateness of the fundamental spread and *matching adjustment* in respect of that asset as part of its analysis and verification process and policy under Chapter 10, in relation to the attestation made under Chapter 9.

6.6 By way of derogation, during the period from, and including, 30 June 2024 to, and excluding, 31 December 2024, a *firm* may, but will not be required, to comply with the obligation in 6.1.

7 INTERNAL CREDIT ASSESSMENTS AND CREDIT RATINGS

7.1 Where a *firm* uses any internal credit assessment of assets within the *relevant portfolio of assets*, the *firm* must ensure on an ongoing basis:

- (1) that, as required by regulation 4(4) of the *IRPR regulations*, such internal credit assessment is of a comparable standard to a *credit rating*; and
- (2) the appropriateness of:
 - (a) its process to produce such internal credit assessments; and
 - (b) the outcomes of such internal credit assessments.

7.2 For the purposes of 7.1, the *firm* must ensure at a minimum that:

- (1) the internal credit assessments have considered all possible sources of *credit risk*, both qualitative and quantitative, and how these types of *credit risk* may interact;
- (2) the internal credit assessment outcomes lie within a plausible range of issue ratings that could have resulted from a *credit rating agency*;
- (3) both at the level of the *relevant portfolio of assets* and of each *asset type*, there is broad consistency and no bias between:
 - (a) internal credit assessment outcomes; and
 - (b) issue ratings that could have resulted from a *credit rating agency*;
- (4) the internal credit assessment process is subject to appropriate validation, and appropriate assessment of its on-going appropriateness;
- (5) the *firm* has obtained proportionate independent external assurance in respect of 7.2(2); and

- (6) the *firm's* internal credit assessment function is independent and there are effective controls to manage any potential conflicts of interest.

7.3 Upon request, the *firm* must be able to demonstrate its compliance with 7.1 to the *PRA*.

7.4 The use of *credit ratings* in the calculation of the *matching adjustment* shall be in line with the specifications set out in Articles 4 - 6 of the Commission Delegated Regulation (EU) 2015/35 and Commission Implementing Regulation 2016/1800.

8 ADDITIONS TO THE FUNDAMENTAL SPREAD IN RESPECT OF ASSETS WITH CASH-FLOWS THAT ARE HIGHLY PREDICTABLE

8.1 A *firm* with a *matching adjustment permission* must identify all sources of uncertainty regarding the timing and amount of cash-flows from any asset in the *relevant portfolio of assets* with cash-flows that are *highly predictable*.

8.2 A *firm* must add to the fundamental spread an amount that reflects the risks arising from the uncertainties identified in accordance with 8.1 to ensure that the fundamental spread reflects risks retained by the *firm* in accordance with 4.6.

9 ATTESTATION REQUIREMENTS

9.1 A *firm* with a *matching adjustment permission* must provide to the *PRA* the attestation set out at (1) at the time set out in (2) by a *person* in (3) in the form set out in 12.1 in respect of each *relevant portfolio of assets* as a whole held by the *firm*.

(1) The attestation is that, as at the applicable *attestation reference date*:

- (a) the fundamental spread used by the *firm* in calculating the *matching adjustment* reflects compensation for all retained risks in accordance with 4.6; and
- (b) the *matching adjustment* can be earned with a high degree of confidence from the assets held in the *relevant portfolio of assets*.

(2) Subject to 9.2, the attestation must be provided:

- (a) annually, no later than 14 weeks after the *firm's* financial year-end, commencing with its first financial year-end after the *matching adjustment permission* took effect; and
- (b) where there is a material change in risk profile of the *firm*, as soon as reasonably practicable after the applicable *attestation reference date*.

(3) The attestation must be provided by the *PRA senior management function holder* in the *firm* responsible for the prescribed responsibility of the production and integrity of the *firm's* financial information and its regulatory reporting (PR Q), as provided for in Insurance – Allocation of Responsibilities 3.1(4).

9.2 In respect of a *firm* with a *matching adjustment permission* that took effect prior to 31 December 2024, that *firm* will not be required, but may nevertheless elect, to provide the attestation set out at 9.1(1) in respect of any financial year-end or material change in risk profile for which the applicable *attestation reference date* would fall within the period commencing on 30 June 2024, up to, and excluding, 31 December 2024.

10 INTERNAL GOVERNANCE FOR THE ATTESTATION

10.1 Before providing any attestation in accordance with 9.1, a *firm* must analyse and justify that the fundamental spread used by the *firm* reflects compensation for all retained risks, and that the *matching adjustment* can be earned with a high degree of confidence from the assets held in the *relevant portfolio of assets*.

- 10.2 A *firm* must have in place appropriate internal processes, systems and controls to allow it to produce the analysis and justification required by 10.1.
- 10.3 A *firm* must put in place and maintain a policy on providing the attestation at 9.1 and the analysis and justification required in 10.1 and must ensure that its *governing body* has approved that policy.

11 DISCLOSURE OF THE ATTESTATION

- 11.1 A *firm* with a *matching adjustment permission* must disclose in its *SFCR* whether it has or has not provided the attestation in accordance with 9.1 in respect of the financial year to which that *SFCR* relates.

12 FORM OF THE ATTESTATION

- 12.1 The attestation must be:
- (1) provided in the form of an attestation document and which must include the information set out at 12.2; and
 - (2) accompanied by a supporting attestation report as set out at 12.3.
- 12.2 The attestation document must include:
- (1) the attestation in 9.1;
 - (2) the name and role of the *PRA senior management function holder* giving the attestation;
 - (3) the *relevant portfolio of assets* to which the attestation applies; and
 - (4) the date of the attestation.
- 12.3 The supporting attestation report must include the following information:
- (1) either:
 - (a) a copy of the latest version of the policy referred to in 10.3; or
 - (b) confirmation that such policy has not been updated since it was last provided to the *PRA*;
 - (2) confirmation that the *firm* and attessor complied with the terms of the policy referred to in 10.3 in making the attestation, or if not:
 - (a) details of the alternative approach followed by the *firm* and the attessor; and
 - (b) an explanation as to why this occurred;
 - (3) a list detailing the evidence the attessor relied on in making the attestation; and
 - (4) in relation to any increase(s) in the fundamental spread that the *firm* has elected to use in accordance with 4.17, a list of:
 - (a) all assets in each *relevant portfolio of assets* to which these apply;
 - (b) the reasons for the increase(s); and
 - (c) the amount of the increase(s) and the *matching adjustment* resulting from those assets,

as at the applicable *attestation reference date*.

13 ON-GOING COMPLIANCE WITH ELIGIBILITY CONDITIONS

- 13.1 This Chapter applies to a *firm* that has been granted a *matching adjustment permission*.

- 13.2 A firm with a *matching adjustment permission* must comply with the *matching adjustment eligibility conditions* and the terms of its *matching adjustment permission*, including any applicable *exposure limits*, at all times.
- 13.3 A firm that applies the *matching adjustment* to a *relevant portfolio of insurance or reinsurance obligations* must not apply a *risk-free interest rate transitional measure* or *volatility adjustment* in respect of those obligations.
- 13.4 Where a firm that applies the *matching adjustment* is no longer able to comply with the *matching adjustment eligibility conditions*, it must immediately:
- (1) inform the PRA; and
 - (2) take the necessary measures to restore compliance with these conditions as soon as possible.
- 13.5 Where a firm is not able to restore compliance with the *matching adjustment eligibility conditions* within two *months* of the date of non-compliance it must then, on a *monthly* basis and for the duration of the period of non-compliance, adjust the *matching adjustment* it applies in respect of the *relevant portfolio of insurance or reinsurance obligations* according to the following formula:

$$MA^* = MA - (n - 1) \times p \times \max \{MA, 0\}$$

where:

MA^* is the reduced *matching adjustment* applied to the *relevant portfolio of insurance or reinsurance obligations*;

MA is the *matching adjustment*, where the *matching adjustment* is calculated assuming no restrictions relating to the breach of *matching adjustment eligibility conditions*;

n is the whole number of *months* since the date of non-compliance, and shall not be greater than 11; and

p is 10%.

Annex C

Amendments to the Technical Provisions 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:

~~basic relevant risk-free interest rate term structure~~

~~means the relevant risk-free interest rate term structure without:~~

~~(1) a matching adjustment;~~

~~(2) a volatility adjustment; or~~

~~(3) a risk-free interest rate transitional measure.~~

...

~~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.~~

...

6 MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM STRUCTURE [DELETED]

6.1 ~~A firm must not apply a matching adjustment to the relevant risk-free interest rate term structure to calculate the best estimate of its insurance or reinsurance obligations unless it has a matching adjustment approval.~~[Deleted]

6.2 ~~Firms that apply the matching adjustment to a relevant portfolio of insurance or reinsurance obligations shall not revert back to the approach that does not include a matching adjustment.~~[Deleted]

6.3 ~~Where a firm that applies the matching adjustment is no longer able to comply with the conditions specified in regulation 42(4) to (6) of the Solvency 2 Regulations 2015, it shall immediately:~~

~~(1) inform the PRA; and~~

~~(2) take the necessary measures to restore compliance with these conditions as soon as possible.~~[Deleted]

6.4 ~~Where a firm is not able to restore compliance with the conditions referred to in 6.3 within two months of the date of non-compliance, it shall cease to apply the matching adjustment to any of its insurance or reinsurance obligations.~~[Deleted]

~~[Note: Art. 77b of the Solvency II Directive]~~

7 CALCULATION OF THE MATCHING ADJUSTMENT ~~[DELETED]~~

- 7.1 This Chapter applies to a *firm* that has been granted a *matching adjustment approval*.~~[Deleted]~~
- 7.2 The *matching adjustment* shall be calculated for each currency in accordance with the following principles:
- (1) ~~the *matching adjustment* shall be equal to the difference of the following:~~
 - (a) ~~the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value (in accordance with the Valuation Part of the *PRA Rulebook*) of the *relevant portfolio of assets*;~~
 - (b) ~~the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations*, where the time value is taken into account using the *basic relevant risk-free interest rate term structure*;~~
 - (2) ~~the *matching adjustment* shall not include the fundamental spread reflecting the risks retained by the *firm*;~~
 - (3) ~~notwithstanding (1), the fundamental spread shall be increased where necessary to ensure that the *matching adjustment* for assets with sub-investment grade credit quality does not exceed the *matching adjustment* for assets of investment grade quality, of the same duration and asset class; and~~
 - (4) ~~the use of external credit assessments in the calculation of the *matching adjustment* shall be in line with the specifications set out in the *Solvency II Regulations*.~~[Deleted]~~~~
- 7.3 For the purposes of 7.2(2) and subject to 7.5, the fundamental spread shall be:
- (1) ~~equal to the sum of the following:~~
 - (a) ~~the credit spread corresponding to the probability of default of the assets; and~~
 - (b) ~~the credit spread corresponding to the expected loss resulting from downgrading of the assets;~~
 - (2) ~~for exposures to the *UK's* central government and central bank, no lower than 30% of the long term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;~~
 - (3) ~~for assets other than exposures to the *UK's* central government and central bank, no lower than 35% of the long term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;~~[Deleted]~~~~
- 7.4 The probability of default referred to in 7.3(1)(a) shall be based on long term default statistics that are relevant for the asset in relation to its duration, credit quality and asset class.~~[Deleted]~~
- 7.5 Where no reliable credit spread can be derived from the default statistics referred to in 7.3, the fundamental spread shall be equal to the portion of the long term average of the spread over the risk-free interest rate set out in 7.3(2) and 7.3(3).~~[Deleted]~~
- [Note: Art. 77c and Art. 77e(3) of the *Solvency II Directive*]

8 VOLATILITY ADJUSTMENT

8.1 A *firm* must not apply a *volatility adjustment* to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations unless:

- (1) it has been granted a *volatility adjustment approval*; and
- (2) the *volatility adjustment* has been set out in *Solvency II Regulations* or published by the PRA under ~~regulation 4B of the *Solvency 2 Regulations*~~ regulation 3 of the *IRPR regulations*.

...

8.4 A *firm* must only apply a *volatility adjustment* that includes a relevant country increase ~~referred to in regulation 4B(6) of the *Solvency 2 Regulations*~~ to calculate the *best estimate* of its insurance or *reinsurance* obligations of products sold in the insurance market of that country, respectively.

...

Annex D

Amendments to the Conditions Governing Business Part

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

...

3 RISK MANAGEMENT

3.1 ...

(4) Where a *firm* applies the *matching adjustment*, the *firm* must manage any risks that are identified in the analysis undertaken in accordance with Matching Adjustment 10.1.

~~[Note: Art. 44(1)-(2) of the Solvency II Directive]~~

3.2 As regards asset-liability management, a *firm* must:

...

(2) where the *matching adjustment* is applied, regularly assess:

- (a) the sensitivity of its *technical provisions* and *eligible own funds* to the assumptions underlying the calculation of the *matching adjustment*, including the calculation of the fundamental spread referred to in ~~Technical Provisions 7.2(2)~~Matching Adjustment 4, and the possible effect of a forced sale of assets on its *eligible own funds*;

...

3.8 ...

(2) The *ORSA* must include at least the following:

...

(b) the compliance, on a continuous basis, with:

- (i) the *SCR* and *MCR*; and
- (ii) the requirements regarding *technical provisions*, as set out in the Technical Provisions and Matching Adjustment Parts; and

...

PRA RULEBOOK: PRA FEES AMENDMENT 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); and
 - (3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: PRA Fees Amendment Instrument 2024

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

Commencement

- D. This instrument comes into force on 9 July 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment Instrument 2024.

By order of the Prudential Regulation Committee

25 June 2024

Annex

Amendments to the Fees Part

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

...

3 PERIODIC FEES

...

Periodic Fees Schedule – Fee Rates and Modifications for the Period from 1 March ~~2023~~2024 to ~~2928~~ February ~~2024~~25

...

TABLE IIIA – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM FEE BLOCK FOR THE FEE YEAR ~~2023-24~~2024-25

Column 1 <i>Fee block</i>	Column 2 <i>Tariff base</i>	Column 3 <i>Tariff bands</i>	Column 4 <i>Tariff rates</i>
A1 deposit acceptors fee block	<i>modified eligible liabilities</i>	Band width (£million of <i>MELs</i>)	Fee payable per million or part million of <i>MELs</i>(£)
		>10 – 140	32.83 <u>35.410</u>
		>140 – 630	32.83 <u>35.410</u>
		>630 – 1,580	32.83 <u>35.410</u>
		>1,580 – 13,400	41.039 <u>44.263</u>
		>13,400	54.17 <u>58.427</u>
A3 general insurers fee block <i>gross written premium for fees purposes, best estimate liabilities for fees purposes</i>	<i>gross written premium for fees purposes</i>	Band width (£million of <i>gross written premium for fees purposes</i>)	Fee payable per million of <i>gross written premium for fees purposes</i> (£)
		>0.5	488.57 <u>482.62</u>
	<i>best estimate liabilities for fees purposes</i>	Band Width (£million of <i>best estimate liabilities for fees purposes</i>)	Fee payable per million of <i>best estimate liabilities for fees purposes</i> (£)
		>1	30.84 <u>30.180</u>
		For UK ISPVs the <i>tariff rates</i> are not relevant and a flat fee of £430.00 is payable in respect of each <i>fee year</i> .	
A4 Life insurers fee block <i>gross written premium</i>	<i>gross written premium for fees</i>	Band width (£million of <i>gross written premium for fees</i>)	Fee payable per million of <i>gross written premium for fees</i>

<i>for fees purposes, best estimate liabilities for fees purposes</i>	<i>purposes</i>	<i>purposes)</i>	<i>purposes (£)</i>
		>1	301.96 <u>249.22</u>
	<i>best estimate liabilities for fees purposes</i>	Band width (£million of best estimate liabilities for fees purposes)	Fee payable per million of best estimate liabilities for fees purposes (£)
		>1	20.30 <u>19.73</u>
A5 managing agents at Lloyd's	<i>active capacity</i>	Band width (£million of active capacity)	Fee payable per million of active capacity (£)
		>50	39.39 <u>39.10</u>
A6 Society of Lloyd's	flat fee	N/A	General periodic fee (£) 2,311,994.57 <u>2,470,048.27</u>
A10 Firms dealing as principal fee block <i>total assets for fees purposes, total operating income for fees purposes</i>	<i>total assets for fees purposes</i>	Band width (£million of total assets for fees purposes)	Fee payable per million or part million of total assets for fees purposes (£)
		N/A	2.41 <u>2.741</u>
	<i>total operating income for fees purposes</i>	Band width (£million of total operating income for fees purposes)	Fee payable per million or part million of total operating income for fees purposes (£)
		N/A	316.08 <u>352.92</u>

...

TABLE VIII – MODEL MAINTENANCE FEES

	Annual fee for CRR firms per model type (£)				Annual fee for UK Solvency II firms per group or solo internal model (£)	
Basis of scale, (aggregated figures for all UK firms within the scope of each model or model type)	IMA	IMM	IRB	AMA	A3 fee block	A4 fee block
<i>CRD credit institutions with modified eligible liabilities in excess of £40,000million, or designated investment</i>	65,000 <u>67,500</u>	85,000 <u>90,000</u>	120,000 <u>125,000</u>	35,000	-	-

<i>firms with total assets for fees purposes in excess of £100,000million</i>						
<i>CRD credit institutions with modified eligible liabilities greater than £5,000million and less than £40,000million, or designated investment firms with total assets for fees purposes greater than £12,500million and less than £100,000million</i>	<u>25,000</u> <u>26,000</u>	<u>40,000</u> <u>42,000</u>	<u>50,000</u> <u>52,000</u>	15,000	-	-
...
The sum of a firm's best estimate liabilities for fees purposes and gross written premium for fees purposes is £1,000 million or more for firms in the general insurance fee block (A3), or for firms in the life insurance fee block (A4), £15,000million or more	-	-	-	-	<u>190,000</u> <u>200,000</u>	<u>250,000</u> <u>260,000</u>
The sum of a firm's best estimate liabilities for fees purposes and gross written premium for fees purposes is greater than £300million and less than £1,000million for firms in the general insurance fee block (A3) or greater than £5,000million and less than £15,000million, or for firms in the life	-	-	-	-	<u>75,000</u> <u>80,000</u>	<u>100,000</u> <u>105,000</u>

insurance fee block (A4)						
...

...

4 REGULATORY TRANSACTION FEES

...

- 4.8 The transferor seeking regulatory consent for an *insurance business transfer scheme* under Part VII of *FSMA* pays a *regulatory transaction fees* of ~~£20,000.00~~ £25,000, the *due date for payment* being on or before the date of any *application* to the *PRA* for the appointment of an independent expert.

...

4.14A

...

Table D – Model types under ~~CRR~~CRR

Applicant (groupings based on <i>tariff data</i> submitted by <i>firms</i> as at 31 December in the <i>fee year</i> prior to the <i>fee year</i> in which the fee is payable).	Fee payable (£)	
Where the application relates to <i>CRD credit institutions</i> or <i>designated investment firms</i> and includes five or more significant overseas entities within the same group.	model type	£
	<i>advanced IRB, IMM</i> or <i>IMA</i>	345,000.00 <u>360,000</u>
	<i>foundation IRB</i>	300,000.00 <u>310,000</u>
	<i>AMA</i>	230,000.00 <u>240,000</u>
Where the applicant: (1) has <i>modified eligible liabilities</i> in excess of £40,000million; or (2) is a <i>designated investment firm</i> with <i>total assets for fees purposes</i> in excess of £100,000million.	model type	£
	<i>advanced IRB, IMM</i> or <i>IMA</i>	295,000.00 <u>305,000</u>
	<i>foundation IRB</i>	250,000.00 <u>260,000</u>
	<i>AMA</i>	185,000.00 <u>190,000</u>
Where the applicant: (1) has <i>modified eligible</i>	model type	£
	<i>advanced IRB, IMM</i> or <i>IMA</i>	120,000.00 <u>125,000</u>

<i>liabilities</i> greater than £5,000million and less than £40,000million; or (2) is a <i>designated investment firm</i> with <i>total assets for fees purposes</i> greater than £15,000million and less than £100,000million.		
	<i>foundation IRB</i>	90,000.00 <u>95,000</u>
	AMA	65,000.00 <u>70,000</u>
Where the applicant:	model type	£
(1) has <i>modified eligible liabilities</i> of £5,000million or less; or (2) is a <i>designated investment firm</i> with <i>total assets for fees purposes</i> of £15,000million or less.	<i>advanced IRB, IMM or IMA</i>	55,000.00
	<i>foundation IRB</i>	40,000.00
	AMA	35,000.00

4.14 B

...

Table E – Internal model application fees

Applicant (groupings based on <i>tariff data</i> submitted by <i>firms</i> as at 31 December in the <i>fee year</i> prior to the <i>fee year</i> in which the fee is payable)	Fee payable (£)
Group Internal Model (Full and Partial)	
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> of £1,000million or more	320,000.00 <u>330,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> greater than £300million and less than £1,000million	420,000.00 <u>125,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> less than £300million	60,000.00 <u>62,500</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for groups in the <i>life insurance fee block</i> of £15,000million or more	320,000.00 <u>330,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for groups in the <i>life insurance fee block</i> greater than £5,000million and less than £15,000million	420,000.00 <u>125,000</u>

Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>groups</i> in the <i>life insurance fee block</i> less than £5,000million	60,000.00 <u>62,500</u>
Solo Internal Model (Full and Partial)	
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>general insurance fee block</i> of £1,000million or more	280,000.00 <u>290,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>general insurance fee block</i> greater than £300million and less than £1,000million	400,000.00 <u>105,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>general insurance fee block</i> less than £300million	50,000.00 <u>52,500</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>life insurance fee block</i> of £15,000million or more	280,000.00 <u>290,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>life insurance fee block</i> greater than £5,000million and less than £15,000million	400,000.00 <u>105,000</u>
Sum of <i>best estimate liabilities for fees purposes</i> and <i>gross written premium for fees purposes</i> for <i>firms</i> in the <i>life insurance fee block</i> less than £5,000million	50,000.00 <u>52,500</u>

...

5 SPECIAL PROJECT FEE FOR RESTRUCTURING

...

5.7 The *SPF* for restructuring is calculated as follows:

...

SPF hourly rates	
Pay grade of persons employed by the PRA	Hourly rate
Administrator	£60.00 <u>£70</u>

Associate	£130.00 £150
Technical specialist	£190.00 £220
Manager	£250.00 £290
Any other persons employed by the <i>PRA</i>	£350.00 £405

...

PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO 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 144H(1) (Relationship with CRR); and
 - (4) section 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO INSTRUMENT 2024

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

Part	Annex
Glossary	A
Leverage Ratio (CRR)	B
Disclosure (CRR)	C
Reporting (CRR)	D

Instruction documents

- D. The rules in this Instrument include any instruction document referred to in the rules. Where indicated by “here”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- E. This instrument comes into force on 5 August 2024.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Ratio Instrument 2024.

By order of the Prudential Regulation Committee

16 July 2024

Annex A**Amendments to the Glossary Part**

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

...

central bank claim

means a *firm's* exposures to a central bank that are denominated in the national currency of the central bank and represented by:

- (1) banknotes and coins constituting legal currency in the jurisdiction of the central bank;
- (2) reserves held by the *firm* at the central bank;
- (3) reserves held by or on behalf of the *firm* in an *omnibus account* at the central bank; or
- (4) any assets representing debt claims on the central bank with a maturity of no longer than three *months*.

...

omnibus account

means an account at a central bank in which comingled funds can be held by, or on behalf of, more than one entity.

...

Principles for Financial Market Infrastructures

means the Principles for Financial Market Infrastructures issued by the Committee on Payment and Market Infrastructures and the International Organisation of Securities Commissions in April 2012.

...

Annex B

Amendments to the Leverage Ratio (CRR) 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:

~~central bank claim~~

~~means the following exposures of a firm to a central bank, provided these are denominated in the national currency of such central bank;~~

- ~~(1) banknotes and coins constituting legal currency in the jurisdiction of the central bank;~~
- ~~(2) reserves held by a firm at the central bank; and~~
- ~~(3) any assets representing debt claims on the central bank with a maturity of no longer than 3 months~~

...

participant entity

means an entity which holds funds, or has funds held on its behalf, in an omnibus account.

...

3 LEVERAGE RATIO (PART SEVEN CRR)

...

ARTICLE 429a EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE

A1 ...

- (a) the *central bank claim* and liability are denominated in the same currency; ~~and~~
- (b) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the liability; ~~and~~
- (c) where the *central bank claim* is represented by reserves in an *omnibus account*, the conditions in A2 are met.

...

A2 The conditions relating to an *omnibus account* referred to in A1(c) are as follows.

- (a) There are effective legal, operational, risk management and governance arrangements relating to the *omnibus account*.
- (b) The arrangements ensure that:
 - (i) a *participant entity*'s entitlement to funds in the *omnibus account* is discrete from any other *participant entity*'s entitlement;
 - (ii) each *participant entity* always has access to details of such entitlement; and
 - (iii) the funds in the *omnibus account* to which a *participant entity* is entitled are not available to any other *participant entity* or any other *participant entity*'s creditors.

- (c) If a third-party holds the *omnibus account* on behalf of the *participant entities*, the arrangements ensure that the funds in the *omnibus account* are:
- (i) segregated from any other assets held by the third-party; and
 - (ii) not available to any creditors of the third-party (except insofar as the central bank can debit charges from the *omnibus account*).
- (d) If the central bank where the *omnibus account* is held can debit charges from the *omnibus account*, the arrangements ensure that:
- (i) each *participant entity* has access to details of the method of calculating its due portion of any charge levied by the central bank on the *omnibus account*;
 - (ii) the method of apportionment is not unfair or unreasonable; and
 - (iii) the central bank does not debit the funds in the *omnibus account* to which a *participant entity* is entitled with an amount greater than the total of:
 - (1) the *participant entity*'s due portion of the charges in respect of the *omnibus account*; and
 - (2) if the central bank can also deduct charges relating to any other account that the *participant entity* holds at the central bank, the amount of any such due charges.
- (e) If the *omnibus account* is used for the purpose of settling obligations between *participant entities* through a *payment system*, the arrangements ensure that the *participant entities*' balances in the *payment system* are always fully funded with funds held in the *omnibus account*.
- (f) If the *omnibus account* is used as part of the operation of a *payment system* (whether for the purpose of settlement or otherwise), the *payment system* is subject to oversight, including through oversight of any *operator* of such *payment system*, by a regulatory body in the jurisdiction of the central bank, in accordance with the *Principles for Financial Market Infrastructures*.
- (g) The requirements in Liquidity Coverage Ratio (CRR) Articles 7(2) and 8(2) are met in respect of the funds held by or on behalf of the *firm* in the *omnibus account*.

...

Annex C

Amendments to the Disclosure (CRR) Part

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

1 APPLICATIONS AND DEFINITIONS

1.2 In this Part, the following definitions shall apply:

...

average exposure measure

means the average *total exposure measure* calculated in accordance with Articles 451(4)(a) ~~or 451(5)~~ of Chapter 4, ~~as applicable~~.

...

~~*central bank claim*~~

~~means the following exposures of a firm to a central bank, provided these are denominated in the national currency of such central bank;~~

~~(1) banknotes and coins constituting legal currency in the jurisdiction of the central bank;~~

~~(2) reserves held by a firm at the central bank; and~~

~~(3) any assets representing debt claims on the central bank with a maturity of no longer than 3 months.~~

...

4 DISCLOSURE (PART EIGHT CRR)

...

TITLE II TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE

...

ARTICLE 451 DISCLOSURE OF THE LEVERAGE RATIO

...

4. ~~Subject to paragraph 5:~~

(a) ~~for~~ For the purposes of paragraph 2(a) an *LREQ firm* must calculate its *average exposure measure* for a quarter as the sum of:

(i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and

(ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and

(b) for the purposes of paragraphs 2(a) ~~(b)~~ and 3, an *LREQ firm* must calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:

- (i) capital measure is the arithmetic mean of the *firm's tier 1 capital (leverage)* on the last day of each month in the quarter; and
- (ii) exposure measure is the sum derived in accordance with (a); ~~unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.~~

5. ~~In relation to the quarterly periods up to 1 January 2023 an LREQ firm must calculate its average exposure measure for a quarter as the sum of:~~
- ~~(a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and~~
 - ~~(b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter. [Deleted]~~

...

6 PILLAR 3 TEMPLATES AND INSTRUCTIONS

...

6.25 Annex XII can be found ~~here~~ [here](#).

...

Annex D**Amendments to the Reporting (CRR) Part**

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

...

6 TEMPLATES AND INSTRUCTIONS

...

Annex XI

6.255 Annex XI can be found ~~here~~ [here](#).

...

**PRA RULEBOOK: CRR FIRMS: ARTICLE 92B UK CRR CONSEQUENTIAL AMENDMENTS
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); and
 - (3) section 192XA (Rules applying to holding companies).
- 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: CRR Firms: Article 92b UK CRR Consequential Amendments Instrument 2024

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

Part	Annex
Reporting (CRR)	A
Disclosure (CRR)	B

Commencement

- D. This instrument comes into force on 4 November 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Article 92b UK CRR Consequential Amendments Instrument 2024.

By order of the Prudential Regulation Committee

15 October 2024

Annex A**Amendments to the Reporting (CRR) Part**

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

...

4 REPORTING (PART SEVEN A CRR)**Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION**

1. Institutions shall report to their *competent authorities* on:

...

- (b) the requirements laid down in Articles ~~92a and 92b~~, for institutions that are subject to those requirements, or the requirements specified in a direction from the *Bank of England* under section 3A(4B) of the Banking Act 2009, for institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution;

...

Annex B

Amendments to the Disclosure (CRR) Part

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

...

2 LEVEL OF APPLICATION

APPLICATION OF REQUIREMENTS ON AN INDIVIDUAL BASIS

...

- 2.2 The institutions referred to in Article 6(1a) of the *CRR* and institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution shall comply with Article 437a and point (h) of Article 447 on an individual basis.

[Note: rule 2.2 sets out an equivalent provision to the second subparagraph of Article 6(3) of the *CRR* that applies to this Part]

...

4 DISCLOSURE (PART EIGHT CRR)

TITLE I GENERAL PRINCIPLES

...

Article 433a DISCLOSURES BY LARGE INSTITUTIONS

...

3. Large institutions that are subject to Article 92a₁ or ~~92b~~ are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution, shall disclose the information required under Article 437a on a semi-annual basis, except for the key metrics referred to in point (h) of Article 447, which are to be disclosed on a quarterly basis.

...

Article 437a DISCLOSURE OF OWN FUNDS AND ELIGIBLE LIABILITIES

Institutions that are subject to Article 92a₁ or ~~92b~~ are material subsidiaries of non-UK G-SIIs and are not resolution entities or subsidiaries of a UK parent institution, shall disclose the following information regarding their own funds and eligible liabilities:

...

Article 447 DISCLOSURE OF KEY METRICS

Institutions shall disclose the following key metrics in a tabular format:

...

- (h) their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and ~~92b~~ or, in the case of institutions that are material subsidiaries of non-UK G-SIIs and are not resolution entities or

subsidiaries of a UK parent institution, in accordance with a direction from the *Bank of England* under section 3A(4B) of the Banking Act 2009, and broken down at the level of each resolution group, where applicable.

...

PRA RULEBOOK: CRR FIRMS: SOLVENCY II FIRMS: REGULATORY REPORTING, REPORTING (CRR) & REPORTING 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); and
 - (3) section 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G (2) (Rule-making instruments) of the Act.

PRA Rulebook: CRR Firms: Solvency II Firms: Regulatory Reporting, Reporting (CRR) & Reporting Instrument 2024

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

Part	Annex
Glossary	A
Regulatory Reporting	B
Reporting (CRR)	C
Reporting	D

Commencement

- D. This instrument comes into force on 4 November 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Solvency II Firms: Regulatory Reporting, Reporting (CRR) & Reporting Instrument 2024.

By order of the Prudential Regulation Committee

15 October 2024

Annex A

Amendments to the Glossary Part

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

...

railway rolling stock

means the class of contract of insurance, specified in paragraph 4 of Part 1 of Schedule 1 to the Regulated Activities Order.

...

suretyship

means the class of contract of insurance, specified in paragraph 15 of Part 1 of Schedule 1 to the Regulated Activities Order.

...

Annex B

Amendments to the Regulatory Reporting Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) every *firm* permitted to carry on the *regulated activities* ~~listed in column (1) of the table in 6.1~~ that are referred to in column (2) of the table in 6.1; and
- (2) a *CRR consolidation entity*.

...

2 REPORTING REQUIREMENTS – DATA ITEMS

- 2.1 Unless otherwise stated, a *firm* permitted to carry on any of the *regulated activities* within any *RAG* set out in column (1) of the table in 6.1 must submit to the *PRA* the *data items*, applicable to the relevant *RAG* as specified in the corresponding rule referred to in column ~~(2)~~(3) of that table.

...

3 REPORTING REQUIREMENTS – FREQUENCY AND PERIOD

- 3.1 Where a *firm* is required to submit *data items* in accordance with 2.1 to 2.3, it must submit this information at the frequency and in respect of the periods specified in the rule referred to in the relevant row of column ~~(3)~~ (4) of the table in 6.1.

...

Annex C

Amendments to the Reporting (CRR) Part

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

...

5 REPORTING REQUIREMENTS

...

CHAPTER 3 FORMAT AND FREQUENCY OF REPORTING ON OWN FUNDS, OWN FUNDS REQUIREMENTS

Article 5 INDIVIDUAL BASIS – QUARTERLY REPORTING

...

5. Information on the geographical distribution of exposures by country, as well as aggregated at a total level, shall be submitted as specified in templates C 09.01, C 09.02 and C 09.04 of Annex I, in accordance with the instructions in point 3.4 of Part II of Annex II. Information specified in templates C 09.01 and C 09.02, and in particular information on the geographical distribution of exposures by country, shall be submitted where non-domestic original exposures in all non-domestic countries in all exposure classes, as reported in row 0850 of template C 04.00 of Annex I, are equal to or higher than 10% of total domestic and non-domestic original exposures as reported in row 0860 of template C 04.00 of Annex I. Exposures shall be deemed to be domestic where they are exposures to counterparties located in the *United Kingdom*. The entry and exit criteria of Article 4 shall apply.

...

Article 7 REPORTING ON A CONSOLIDATED BASIS

In order to report information on own funds and own funds requirements in accordance with point (a) of Article 430(1) of the Reporting (CRR) Part ~~of the PRA Rulebook~~ on a consolidated basis, institutions shall submit:

...

- (b) the information specified in templates C 06.01 and C 06.02 of Annex I, in accordance with the instructions provided in point 2 of Part II of Annex II regarding entities included in the scope of consolidation, with a semi-annual frequency.

...

Annex D

Amendments to the Reporting Part

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

...

2 REPORTING TO THE PRA

...

2.6 ...

- (4) A *firm* writing ~~suretyship~~suretyship business the effect of which is to improve the credit rating of the underlying ~~security~~ must submit template NS.08: Business Model Analysis – Financial Guarantee Insurers;

...

- (7) A *general insurer* carrying on *insurance business* and proportional and non-proportional *reinsurance* obligations relating to:

- (a) ~~railway rolling stock~~railway rolling stock;

...

PRA RULEBOOK: SOLVENCY II FIRMS: NON-SOLVENCY II FIRMS: NON-AUTHORISED PERSONS: POLICYHOLDER PROTECTION (AMENDMENT) 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 213 (The compensation scheme); and
 - (4) section 214 (General).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: Solvency II Firms: Non-Solvency II Firms: Non-Authorised Persons: Policyholder Protection (Amendment) Instrument 2024

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

Commencement

- D. This instrument comes into force on 4 November 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Non-Solvency II Firms: Non-Authorised Persons: Policyholder Protection (Amendment) Instrument 2024.

By order of the Prudential Regulation Committee

15 October 2024

Annex

Amendments to the Policyholder Protection Part

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

...

9 PROTECTED CLAIMS

...

9.5A For the purposes of 9.5(4), where:

- (1) a contract of insurance is a life policy or pension annuity that relates to benefits a policyholder has accrued as a member of an occupational pension scheme, and
- (2) the risk or commitment being considered under 9.5 would not otherwise be a protected risk or commitment,

the determination of where the contract of insurance was first taken out must instead be made by reference to the habitual residence of the policyholder at the date the policyholder joined the occupational pension scheme.

...

PRA RULEBOOK: CRITICAL THIRD PARTIES 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 137T (General supplementary powers);
 - (2) section 166(9) (Reports by skilled persons);
 - (3) section 166A(9) (Appointment of skilled person to collect and update information);
 - (4) section 312M (Power to make rules);
 - (5) section 312P (Information gathering and investigations); and
 - (6) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: Critical Third Parties Instrument 2024

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

Part	Annex
Glossary	A
Critical Third Parties	B
Fees	C
Interpretation	D

Commencement

- D. This instrument comes into force on 1 January 2025.

Citation

- E. This instrument may be cited as the PRA Rulebook: Critical Third Parties Instrument 2024.

By order of the Prudential Regulation Committee

8 November 2024

Annex A

Amendments to the Glossary Part

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

...

critical third party

means a person designated by the Treasury in regulations made under section 312L(1) of FSMA.

...

firm

(except in the Critical Third Parties Part of the PRA Rulebook) means a PRA-authorised person within the meaning of section 2B(5) of FSMA.

(in the Critical Third Parties Part of the PRA Rulebook) means:

- (1) an authorised person;
- (2) a relevant service provider, or
- (3) an FMI entity.

...

person connected with a critical third party

has the same meaning as in section 312P(10) of FSMA, and the reference to any relevant time means any time relevant for the application of the relevant rule.

...

skilled person

(except in the Critical Third Parties Part of the PRA Rulebook) means a person appointed to:

- (1) make and deliver to the PRA a report as provided for by section 166 of FSMA (Reports by skilled persons); or
- (2) collect or update information as required by the PRA under section 166A of FSMA (Appointment of skilled person to collect and update information).

(in the Critical Third Parties Part of the PRA Rulebook) means a person appointed to:

- (1) make and deliver to a regulator a report as provided for by section 166 of FSMA (Reports by skilled persons) (as applied by section 312P of FSMA); or
- (2) collect or update information as required by a regulator under section 166A of FSMA (Appointment of skilled person to collect and update information) (as applied by section 312P of FSMA).

...

Annex B**Critical Third Parties Part**

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

Part**CRITICAL THIRD PARTIES**

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. INTERPRETATIVE PROVISIONS**
- 3. CRITICAL THIRD PARTY FUNDAMENTAL RULES**
- 4. OPERATIONAL RISK AND RESILIENCE REQUIREMENTS**
- 5. ASSURANCE, SCENARIO TESTING AND INCIDENT MANAGEMENT PLAYBOOK EXERCISE**
- 6. SELF-ASSESSMENT**
- 7. INFORMATION SHARING WITH FIRMS**
- 8. INCIDENT REPORTING**
- 9. NOTIFICATIONS**
- 10. INACCURATE, FALSE OR MISLEADING INFORMATION**
- 11. ADDRESS FOR SERVICE**
- 12. CONTRACTS WITH SKILLED PERSONS AND DELIVERY OF REPORTS**
- 13. REFERRING TO OVERSIGHT BY THE REGULATORS OR TREASURY DESIGNATION**
- 14. RECORD KEEPING**
- 15. ELECTRONIC SUBMISSION OF INFORMATION**

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *critical third party* in connection with the provision of *services* wherever those *services* are carried out.

1.2 In this Part, the following definitions shall apply:

affected firm

means, in relation to a *CTP operational incident*:

- (1) any *firm* to which the *critical third party* supplies a *systemic third party service* impacted by that *CTP operational incident*; or
- (2) any *firm* whose *assets* are, or may be, seriously and adversely impacted by that *CTP operational incident*.

asset

means something, whether tangible or intangible, that is of value, including people, data, information, infrastructure, finances and reputation.

Bank

means the *Bank of England*, other than when it is acting in its capacity as the *PRA*.

collective incident response framework

means any group involving *firms*, the *regulators* or a combination thereof, whose purpose is to facilitate a collective response to incidents that may adversely affect the *UK's* financial sector or parts of it.

CTP duties

means the duties and obligations placed upon a *critical third party* by or under *FSMA*, including the rules in this Part.

CTP Fundamental Rules

means the rules set out in 3.1 to 3.6.

CTP operational incident

means either a single event or a series of linked events that:

- (1) causes serious *disruption* to the delivery of a *systemic third party service*; or
- (2) impacts the *critical third party's* operations such that the availability, authenticity, integrity or confidentiality of *assets* belonging to *firms* which a *critical third party* has access to as a result of it providing a *systemic third party service* to those *firms* is or may be seriously and adversely impacted.

disruption

includes, in relation to a *systemic third party service*:

- (1) complete or partial failure of that *service*;
- (2) complete or partial degradation to the quality of that *service*;
- (3) complete or partial unavailability of that *service*; or
- (4) the *service* not performing as intended as a whole or in part.

incident management playbook

means a *document* setting out at least the matters required by 4.10(3).

incident management playbook exercise

means a simulation of a *CTP operational incident* (based on severe but plausible scenarios) designed to assess the effectiveness of one or more aspects of a *critical third party's incident management playbook*.

key nth-party provider

means a *person* that is part of a *critical third party's supply chain* and is essential to the delivery of a *systemic third party service* to one or more *firms*.

oversight function

means a function conferred by *FSMA* on a *regulator* in relation to *critical third parties*.

regulator

means:

- (1) the *PRA*;
- (2) the *FCA*; or
- (3) the *Bank*,

and 'regulators' means the *PRA*, the *FCA* and the *Bank*.

relevant document

has the meaning given in regulation 1 of the Financial Services and Markets Act 2000 (Service of Notices) Regulations 2001 (SI 2001/1420).

supply chain

means the network of *persons* that provide infrastructure, goods, *services* or other inputs directly or indirectly used by a *critical third party* to deliver, support or maintain a *systemic third party service*.

systemic third party service

means a *service* (wherever carried out) provided by a *critical third party* to one or more *firms* a failure in, or *disruption* to, the provision of which (either individually or, where more than one *service* is provided, taken together) could threaten the stability of, or confidence in, the *UK* financial system.

2 INTERPRETATIVE PROVISIONS

2.1 Unless the contrary intention appears, any reference in this Part to a *regulator* or the *regulators* is a reference:

- (1) when the relevant *oversight function* is exercised by the *PRA*, to the *PRA*;
- (2) when the relevant *oversight function* is exercised by the *FCA*, to the *FCA*;
- (3) when the relevant *oversight function* is exercised by the *Bank*, to the *Bank*.

3 CRITICAL THIRD PARTY FUNDAMENTAL RULES

3.1 *CTP Fundamental Rule 1: A critical third party must conduct its business with integrity.*

3.2 *CTP Fundamental Rule 2: A critical third party must conduct its business with due skill, care and diligence.*

3.3 *CTP Fundamental Rule 3: A critical third party must act in a prudent manner.*

- 3.4 *CTP Fundamental Rule 4: A critical third party must have effective risk strategies and risk management systems.*
- 3.5 *CTP Fundamental Rule 5: A critical third party must organise and control its affairs responsibly and effectively.*
- 3.6 *CTP Fundamental Rule 6: A critical third party must deal with each regulator in an open and cooperative way and must disclose to each regulator appropriately anything relating to the critical third party of which it would reasonably expect notice.*
- 3.7
- (1) 3.6 applies to a *critical third party* in respect of a *critical third party's* provision of any services to firms; and
 - (2) 3.1 to 3.5 only apply to a *critical third party* in respect of the *critical third party's* provision of systemic third party services to firms.

4 OPERATIONAL RISK AND RESILIENCE REQUIREMENTS

- 4.1 A *critical third party* must have in place sound, effective and comprehensive strategies, controls, processes and systems that enable it to comply with this Part.
- 4.2 The strategies, processes and systems required by 4.1 must be proportionate to the nature, scale and complexity of the *critical third party's* activities.

Requirement 1: Governance

- 4.3 A *critical third party* must ensure that its governance arrangements promote the resilience of any systemic third party service it provides, including by:
- (1) appointing one or more individuals who:
 - (a) are employees of the *critical third party* or members of its governing body; and
 - (b) possess the appropriate authority, knowledge, skills and experience,
 to act as the central point of contact with the regulators in their capacity as authorities having oversight functions;
 - (2) establishing clear roles and responsibilities at all levels of its staff who are essential to the delivery of a systemic third party service, with clear and well-understood channels for communicating and escalating issues and risks;
 - (3) establishing, overseeing and implementing an approach that covers the *critical third party's* ability to prevent, respond and adapt to, as well as recover from, any CTP operational incident;
 - (4) implementing lessons learned from CTP operational incidents and any testing and exercising undertaken, including but not limited to that undertaken in accordance with 5;
 - (5) ensuring appropriate review and approval of any information provided to the regulators;
 - (6) notifying the regulators in writing of:
 - (a) the names of the individuals appointed under (1);
 - (b) the business address of those individuals; and
 - (c) the email address, telephone number and out of hours contact details for each of those individuals; and

- (7) notifying the *regulators* of any changes to the information notified under (6) as soon as is practicable.

Requirement 2: Risk management

- 4.4 A *critical third party* must manage effectively risks to its ability to deliver a *systemic third party service* including by:
- (1) identifying and monitoring relevant external and internal risks;
 - (2) ensuring that it has in place risk management processes that are effective at managing those risks; and
 - (3) regularly updating its risk management processes to reflect issues arising and lessons learned from:
 - (a) *CTP operational incidents*;
 - (b) engagement with the *regulators*;
 - (c) new and emerging risks; and
 - (d) any associated testing and exercising, including but not limited to that carried out in accordance with 5.

Requirement 3: Dependency and supply chain risk management

- 4.5 A *critical third party* must (as part of its obligation under 4.4) identify and manage any risks to its *supply chain* that could affect its ability to deliver a *systemic third party service*.
- 4.6 A *critical third party* must take reasonable steps to ensure that its *key nth-party providers* and *persons connected with a critical third party* that are part of its *supply chain*:
- (1) are informed of the *CTP duties* that apply to the *critical third party*;
 - (2) cooperate with the *critical third party* in meeting those *CTP duties*; and
 - (3) provide the *regulators* with access to any information relevant to the exercise of their *oversight functions*.

Requirement 4: Technology and cyber resilience

- 4.7 A *critical third party* must (as part of its obligation under 4.4) take reasonable steps to ensure the resilience of any technology that delivers, maintains or supports a *systemic third party service*, including by having:
- (1) (as part of its obligation under 4.1) sound, effective and comprehensive strategies, processes and systems to adequately manage risks to its technology and cyber resilience; and
 - (2) regular testing and exercising of those strategies, processes and systems (including as part of its obligations under 5) and processes and measures that reflect lessons learned from that testing and exercising.

Requirement 5: Change management

- 4.8 A *critical third party* must ensure that it has a systematic and effective approach to dealing with changes to a *systemic third party service*, including changes to the processes or technologies used to deliver, maintain or support a *systemic third party service*, including by:

- (1) implementing appropriate policies, procedures and controls to manage effectively the resilience of any change to a *systemic third party service*;
- (2) implementing any change to a *systemic third party service* in a way that minimises appropriately the risk of any *CTP operational incident* occurring; and
- (3) ensuring that prior to being implemented, any change is appropriately risk-assessed, recorded, tested, verified and approved.

Requirement 6: Mapping

4.9 A *critical third party* must:

- (1) within 12 *months* of being designated by the *Treasury*, identify and document:
 - (a) the resources, including the *persons* (including *key nth-party providers*), *assets*, supporting *services* and technology, used to deliver, support and maintain each *systemic third party service* it provides; and
 - (b) any internal and external interconnections and interdependencies between the resources identified under (a) in respect of that *service*; and
- (2) thereafter regularly update the process conducted under (1).

Requirement 7: Incident management

4.10 A *critical third party* must manage effectively *CTP operational incidents* including by:

- (1) implementing appropriate measures to respond to and recover from *CTP operational incidents* in a way that minimises the impact, or potential impact, on the stability of, or confidence in, the *UK* financial system;
- (2) setting an appropriate maximum tolerable level of *disruption* to each *systemic third party service*;
- (3) maintaining and operating an *incident management playbook*, the first version of which must be in place within 12 *months* of the *critical third party* being designated by the *Treasury*, which sets out the plans and procedures to be followed by the *critical third party* in the event of a *CTP operational incident* in order to:
 - (a) respond to and recover from the *CTP operational incident*; and
 - (b) facilitate effective communication with, and support to, the *regulators* and *affected firms* (individually and collectively); and
- (4) cooperating and coordinating with the *regulators* and *affected firms* in response to *CTP operational incidents*, including through *collective incident response frameworks*.

Requirement 8: Termination of a systemic third party service

4.11 A *critical third party* must have in place appropriate measures to respond to a termination of any of its *systemic third party services* (for any reason), including by putting in place:

- (1) arrangements to support the effective, orderly and timely termination of that *service*, and (if applicable) its transfer to another *person*, including the *firm* the *service* is provided to; and
- (2) provision for ensuring access to, recovery and return of any relevant *firm assets* to each *firm* it provides that *service* to and (where applicable) in an easily accessible format.

5 ASSURANCE, SCENARIO TESTING AND INCIDENT MANAGEMENT PLAYBOOK EXERCISE

General evidence requirement

- 5.1 A *critical third party* must be able to demonstrate to the *regulators* its ability to comply with this Part.

Scenario testing

- 5.2 As part of its obligation under 5.1, a *critical third party* must carry out regular scenario testing of its ability to continue providing each *systemic third party service* within its appropriate maximum tolerable level of *disruption* (set in accordance with 4.10(2)) in the event of a severe but plausible disruption to its operations.
- 5.3 When carrying out the scenario testing required by 5.2, a *critical third party* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business, risk profile and *supply chain* and consider the risks to the delivery of the *systemic third party service* in those circumstances.

Incident management playbook exercise

- 5.4 As part of its obligation under 5.1, a *critical third party* must assess the effectiveness of its *incident management playbook* regularly, including undertaking an appropriate *incident management playbook exercise* with a representative sample of the *firms* to which it provides *systemic third party services* within 12 months of the *critical third party* being designated by the *Treasury* and at least biennially thereafter.
- 5.5 A *critical third party* must, as soon as is practicable, prepare and submit to the *regulators* a report of the *incident management playbook exercise* undertaken under 5.4 (including any actions taken in the light of the results of that exercise).

6 SELF-ASSESSMENT

- 6.1 A *critical third party* must provide to the *regulators*:
- (1) within three months of the *critical third party* being designated by the *Treasury*, an interim self-assessment; and
 - (2) annually thereafter, an annual self-assessment, of the *critical third party's* compliance with this Part.
- 6.2 A *critical third party* must keep a copy of each interim and annual self-assessment referred to in 6.1 for a period of at least three years after submitting it to the *regulators*.

7 INFORMATION SHARING WITH FIRMS

- 7.1 A *critical third party* must have in place effective and secure processes and procedures to ensure sufficient and timely information is given to a *firm* to which it provides any *systemic third party services* to enable that *firm* to manage adequately risks related to its use of the *critical third party's systemic third party services*.
- 7.2 The information referred to in 7.1 includes, but is not limited to:
- (1) results of testing and exercising carried out in accordance with 5 (including any action taken in the light of the results of the testing and exercising);

- (2) the annual self-assessment prepared in compliance with 6.1(2), redacted as appropriate; and
- (3) the appropriate maximum tolerable level of *disruption* set by the *critical third party* in accordance with 4.10(2) for each *systemic third party service* provided to the *firm*.

8 INCIDENT REPORTING

Initial incident report

8.1 A *critical third party* must, as soon as is practicable after the occurrence of a *CTP operational incident* and in so far as it is aware at the time of submission, submit the following information about the *CTP operational incident*:

- (1) to the *regulators* and to *affected firms*:
 - (a) a description of the *CTP operational incident*, including:
 - (i) the nature and extent of:
 - (1) the *disruption* to *systemic third party services*; or
 - (2) impact to the *critical third party's* operations;
 - (ii) the time when the *CTP operational incident* was detected (and, if different, the local time in the location where the *CTP operational incident* was detected);
 - (iii) the name and number of *systemic third party services* affected;
 - (iv) the geographical area, including the jurisdictions, affected by the *CTP operational incident*; and
 - (v) if known, the cause of the *CTP operational incident*;
 - (b) contact details of any individual who is responsible for communicating with the *affected firms* about the *CTP operational incident*;
 - (c) details of any initial action taken or planned in response to the *CTP operational incident*;
 - (d) the anticipated amount of time it will take to resolve the *CTP operational incident*, including the anticipated recovery time for each *systemic third party service* affected; and
 - (e) any other information the *critical third party* reasonably considers relevant to the *affected firms* and the *regulators* in making an initial assessment of the *CTP operational incident's* potential impact on *affected firms*,

and

- (2) to the *regulators*:
 - (a) the names of the *affected firms*;
 - (b) the names of any other regulatory body or authorities (other than the *regulators*) that have been notified of the *CTP operational incident*; and
 - (c) any other information that the *critical third party* reasonably considers will assist the *regulators* in making an initial assessment of the impact the *CTP operational incident* could have on the stability of, or confidence in, the *UK's* financial system.

Intermediate incident report

- 8.2 A *critical third party* must, as soon as is practicable after any significant change in circumstances from that described in the initial report submitted under 8.1 and any intermediate incident report already submitted under this rule (including the *CTP operational incident* being resolved) and in so far as it is aware at the relevant time, provide the *regulators* and the *affected firms* with information further to that already disclosed in relation to the *CTP operational incident*, including but not limited to:
- (1) any information that the *critical third party* reasonably considers will assist the *regulators* and *affected firms* in understanding the nature and extent of the *CTP operational incident*;
 - (2) any steps taken to resolve the *CTP operational incident*;
 - (3) if the *CTP operational incident* has been resolved, the time and date it was resolved; and
 - (4)
 - (a) any other information the *critical third party* reasonably considers to be relevant to *affected firms*; and
 - (b) to the *regulators* only, any other information the *critical third party* reasonably considers to be relevant to the *regulators*.

Final incident report

- 8.3 A *critical third party* must, within a reasonable time of the *CTP operational incident* being resolved, provide the *regulators* and the *affected firms* with the following information in relation to the *CTP operational incident*:
- (1) the time and date that the *CTP operational incident* was resolved;
 - (2) a description of the root causes (in so far as it is aware at the time of submission);
 - (3) a description of any remedial actions the *critical third party* has or is planning to put in place and an estimated timeline for the completion of those remedial actions;
 - (4) a description of the *critical third party's* assessment of:
 - (a) the likelihood of recurrence of the *CTP operational incident*; and
 - (b) the long-term implications of the *CTP operational incident*;
 - (5) a description of identified areas for improvement for the *critical third party* and, where relevant, the *affected firms*; and
 - (6)
 - (a) any other information the *critical third party* reasonably considers to be relevant to *affected firms*; and
 - (b) to the *regulators* only, any other information the *critical third party* reasonably considers to be relevant to the *regulators*.

9 NOTIFICATIONS

- 9.1 A *critical third party* must notify the *regulators* immediately where there is an actual or potential circumstance or event that seriously and adversely impacts, or could seriously and adversely impact, the *critical third party's* ability to deliver any of its *systemic third party services* or meet any of its obligations under this Part, including where:
- (1) civil proceedings are brought by or against the *critical third party* or a claim or dispute is referred to alternative dispute resolution in any jurisdiction;

- (2) disciplinary measures or sanctions have been imposed on the *critical third party* by any statutory or regulatory authority in any jurisdiction (other than the *regulators*), or the *critical third party* becomes aware that one of those authorities has commenced an investigation into its affairs;
- (3) the *critical third party* is in financial difficulty and is considering entering into an insolvency proceeding or a restructuring plan in any jurisdiction, or any such proceedings are likely to be brought against it in any jurisdiction; and
- (4) the *critical third party* is subject to criminal proceedings, or has been prosecuted for, or convicted of, a criminal offence in any jurisdiction involving fraud or dishonesty.

10 INACCURATE, FALSE OR MISLEADING INFORMATION

- 10.1 A *critical third party* must take reasonable steps to ensure that all information it gives to the *regulators* and *firms* in accordance with the *CTP duties* (including information required by 8 and 9) is:
- (1) factually accurate or, in the case of estimates and judgements, fairly and properly based after appropriate enquiries have been made by the *critical third party*; and
 - (2) complete, in that it should include anything of which the *regulators* would reasonably expect notice.
- 10.2 If a *critical third party* is unable to obtain the information required in 10.1, then it must inform the *regulators* that the scope of the information provided is, or may be, limited.
- 10.3 If a *critical third party* becomes aware, or has information that reasonably suggests, that it has or may have provided the *regulators* with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material way, it must notify the *regulators* immediately.
- 10.4 Subject to 10.5, the notification required by 10.3 must include:
- (1) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;
 - (2) an explanation of why such information was or may have been provided; and
 - (3) the correct information.
- 10.5 If the information in 10.4(3) cannot be submitted with the notification (because it is not immediately available), it must instead be submitted as soon as is practicable afterwards.

11 ADDRESS FOR SERVICE

- 11.1 A *critical third party* must provide the *regulators* with an address in the *UK* for the service of documents (including *relevant documents*).
- 11.2 A *critical third party* must notify the *regulators* of any change to the information provided under 11.1 as soon as is practicable.

12 CONTRACTS WITH SKILLED PERSONS AND DELIVERY OF REPORTS

- 12.1 If a *critical third party* appoints a *skilled person*, that *critical third party* must give the *regulators* sufficient and timely information about the cost of the *skilled person's* report or collection or updating of information, including both an initial estimate of the cost as well as the cost of the completed report, collection or updating of information.

12.2 When a *critical third party* appoints a *skilled person*, the *critical third party* must, in a contract with that *person*:

- (1) require and permit the *skilled person* during and after the course of their appointment:
 - (a) to cooperate with the *regulators* in connection with the discharge of their *oversight functions*; and
 - (b) to communicate to the *regulators* information on, or the *skilled person's* opinion on, matters of which they have, or had, become aware in their capacity as a *skilled person* reporting on the *critical third party* in the following circumstances:
 - (i) the *skilled person* reasonably believes that the information on, or their opinion on, matters for which they were appointed may be of material significance to the *regulators* in determining whether the *critical third party* concerned complies with and will continue to comply with the *CTP duties*; or
 - (ii) the *skilled person* reasonably believes that the *critical third party* is not, may not be or may cease to be a going concern;
- (2) require the *skilled person* to prepare a report or collect or update information, as notified to the *critical third party* by the *regulator* that has required such report, collection or updating within the time specified by the *regulator*; and
- (3) waive any contractual or other duty of confidentiality owed by the *skilled person* to the *critical third party* which might limit the provision of information or opinion by that *skilled person* to the *regulators* in accordance with (1) or (2).

12.3 A *critical third party* must ensure that the contract it makes with the *skilled person* under 12.2 requires and permits the *skilled person* to provide the following to the *regulators* if requested to do so:

- (1) interim reports;
- (2) source data, *documents* and working papers;
- (3) copies of any draft reports given to the *critical third party*; and
- (4) specific information about the planning and progress of the work to be undertaken (which may include project plans, progress reports including percentage of work completed, details of time spent, costs to date, and details of any significant findings and conclusions).

12.4 A *critical third party* must ensure that the contract required by 12.2 is:

- (1) governed by the laws of a part of the *UK*;
- (2) in writing, and:
 - (a) expressly provides that the *regulators* have a right to enforce the provisions included in the contract under 12.2, 12.3 and 12.4(2)(b) to (d);
 - (b) expressly provides that, in proceedings brought by the *regulators* for the enforcement of those provisions, the *skilled person* is not to have available by way of defence, set-off or counterclaim any matter that is not relevant to those provisions;
 - (c) if the contract includes an arbitration agreement, expressly provides that the *regulators* are not, in exercising the right in (a), to be treated as a party to, or bound by, the arbitration agreement; and
 - (d) expressly provides that the provisions included in the contract under 12.2, 12.3 and 12.4(2) are irrevocable and may not be varied or rescinded without the *regulators'* consent; and

- (3) not varied or rescinded in such a way as to extinguish or alter the provisions referred to in (2)(d).

- 12.5 When a *critical third party* appoints a *skilled person*, a *critical third party* must take reasonable steps to ensure that the *skilled person* delivers a report or collects or updates information in accordance with the terms of the *skilled person's* appointment.
- 12.6 A *critical third party* must provide all reasonable assistance to a *skilled person* appointed to provide a report under section 166 of *FSMA* (Reports by skilled persons) or to collect or update information under section 166A (Appointment of skilled person to collect and update information) of *FSMA* (as applied by section 312P of *FSMA*) and take reasonable steps to ensure that its *employees* and agents also provide all reasonable assistance to that *skilled person*.

13 REFERRING TO OVERSIGHT BY THE REGULATORS OR TREASURY DESIGNATION

- 13.1 A *critical third party* must ensure that it does not, and must take reasonable steps to ensure that any *person* acting on its behalf does not, in any way indicate or imply that the *critical third party* has the approval or endorsement of any of the *regulators* by virtue of:
 - (1) its designation as a *critical third party*; or
 - (2) being overseen by the *regulators* in respect of *services* it provides to *firms*.
- 13.2 A *critical third party* must not, and must take reasonable steps to ensure that any *person* acting on its behalf does not, in any communication indicate or imply that the *critical third party's* designation by the *Treasury* or oversight by the *regulators* confers any advantage to a *firm* or anyone else in using its *services* as compared to a *service provider* who is not designated as a *critical third party*.
- 13.3 13.1 and 13.2 do not prevent the making of statements that explain, in a way that is fair, clear and not misleading:
 - (1) that the *critical third party* has been designated by the *Treasury*;
 - (2) that the *critical third party* is subject to oversight by the *regulators* in respect of the *systemic third party services* it provides to *firms*; and
 - (3) the *systemic third party services* the *critical third party* provides to *firms*.

14 RECORD KEEPING

- 14.1 A *critical third party* must arrange for orderly records to be kept of its business and internal organisation, in so far as they concern the provision of *systemic third party services* to *firms*, which must be sufficient to enable each *regulator* to:
 - (1) perform its *oversight functions*; and
 - (2) ascertain whether or not the *critical third party* has complied with its *CTP duties*.

15 ELECTRONIC SUBMISSION OF INFORMATION

- 15.1 A *critical third party* must submit the information required under this Part to the *regulators* and *affected firms* (as the context requires) by electronic means.

Annex C

Amendments to the Fees Part

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

...

4 REGULATORY TRANSACTION FEES

...

4.16 Where the *PRA* has given notice to a *fee payer* of its intention to itself appoint a *skilled person* to:

- (1) provide it with a report pursuant to section 166(3)(b) of FSMA (including as applied by section 312P of FSMA); or
- (2) collect or update information pursuant to ~~§~~section 166A(2)(b) of FSMA (including as applied by section 312P of FSMA);

the fee will be the amount invoiced by the ~~skilled person~~skilled person.

[Note: section 312P of FSMA applies section 166 of FSMA (Reports by skilled persons) in relation to critical third parties and persons connected with critical third parties and applies section 166A of FSMA in relation to critical third parties]

4.17 The *due date for payment* by the *firm*, critical third party or person connected with a critical third party is 30 days from the date of each invoice from the *PRA* to the *firm*, critical third party or person connected with a critical third party.

...

Annex D**Amendments to the Interpretation Part**

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

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to:

...

(4) a *PRA approved parent holding company*; ~~and~~

(5) a *PRA designated parent holding company*; ~~i~~

(6) a critical third party; and

(7) a person connected with a critical third party.

...

Glossary externally defined terms

Term	Definition source
authorised person	section 417(1) of <i>FSMA</i>
document	section 417(1) of <i>FSMA</i>
FMI entity	section 312L(8) of <i>FSMA</i>
month	Schedule 1, Interpretation Act 1978
relevant service provider	section 312L(8) of <i>FSMA</i>
service	section 312L(8) of <i>FSMA</i>
Treasury	Schedule 1, Interpretation Act 1978

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
Transitional Measure on Technical Provisions	G
Transitional Measures	H
Conditions Governing Business	I
Third Country Branches	J
Insurance – Supervised Run Off	K
Run-off Operations	L
Group Supervision	M

Defined terms and cross references

- D. This instrument includes (1) the use of terms that are added to the Glossary Part of the PRA Rulebook; and (2) cross references to rules that are added to the PRA Rulebook, by PRA Rulebook: Solvency II Instrument 2024 and PRA Rulebook: Solvency II Reporting Reform Instrument 2024.

Commencement

E. This instrument comes into force on 31 December 2024.

Citation

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

By order of the Prudential Regulation Committee

5 November 2024

Annex A

Amendments to the Glossary Part

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

...

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 6.1D.

...

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

(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.

...

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.

...

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

means:

- (1) 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.

...

line of business

means a line of business as set out in ~~Annex I of Commission Delegated Regulation (Solvency II) 2015/35~~ Annex 1 to the Technical Provisions – Further Requirements Part.

...

long-term insurance obligations

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

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*.

...

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.

...

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.

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*.

...

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 *TMTP Permission*, under Transitional Measure on Technical Provisions 7.1.

...

policyholder

either:

- (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*.

...

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*.

...

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*~~ *TMTP*.

...

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*, *third country reinsurance undertakings* or *Lloyd's*); 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 Solvency II firm* (or *third country insurance undertaking*, *third country reinsurance undertaking* or *Lloyd's*) 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.

1 APPLICATION AND DEFINITIONS

...

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

...

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]

- 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*]~~

- 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*]~~

Annex C

Amendments to the Minimum Capital Requirement Part

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

...

3 CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT

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_{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:

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

where:

- (1) MCR_{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~~;
- (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:

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

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 α_s and β_s are set out in 6.1.

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 *Technical Provisions – Further Requirements 23.3 and 23.5*; and
- (2) amounts recoverable from *reinsurance contracts* or *special purpose vehicles*, that do not comply with *Solvency Capital Requirement – Standard Formula 3G2, 3G3, 3G5 and 3G7* 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 *Technical Provisions – Further Requirements 23.3*; and
- (2) *premiums* for *reinsurance contracts* that do not comply with *Solvency Capital Requirement – Standard Formula 3G2, 3G3, 3G5 and 3G7*, 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:

$$MCR_{\text{linear},l} = 0.037 \cdot TP_{(l,1)} - 0.052 \cdot TP_{(l,2)} + 0.007 \cdot TP_{(l,3)} + 0.021 \cdot TP_{(l,4)} + 0.0007 \cdot CAR$$

where:

- (1) $TP_{(l,1)}$ 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) $TP_{(l,2)}$ 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) $TP_{(l,3)}$ 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) $TP_{(l,4)}$ 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:
 - (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 *Technical Provisions – Further Requirements 23.3 and 23.5*; and

(2) amounts recoverable from *reinsurance contracts* or *special purpose vehicles* that do not comply with Solvency Capital Requirement – Standard Formula 3G2, 3G3, 3G5, 3G6, 3G7, 3G8 and 3G9 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 (α_s)</u>	<u>Factor for premiums written for segment s (β_s)</u>
1	Medical expense insurance	1 and 13	4.7%	4.7%
2	Income protection insurance	2 and 14	13.1%	8.5%
3	Workers' compensation insurance	3 and 15	10.7%	7.5%
4	Motor vehicle liability insurance and proportional <i>reinsurance</i>	4 and 16	8.5%	9.4%
5	Other motor insurance and proportional <i>reinsurance</i>	5 and 17	7.5%	7.5%
6	Marine, aviation and transport insurance and proportional <i>reinsurance</i>	6 and 18	10.3%	14%
7	Fire and other damage to property insurance and proportional <i>reinsurance</i>	7 and 19	9.4%	7.5%
8	General liability insurance and proportional <i>reinsurance</i>	8 and 20	10.3%	13.1%
9	Credit and suretyship insurance and proportional <i>reinsurance</i>	9 and 21	17.7%	11.3%
10	Legal expenses insurance and proportional <i>reinsurance</i>	10 and 22	11.3%	6.6%
11	Assistance and its proportional <i>reinsurance</i>	11 and 23	18.6%	8.5%
12	Miscellaneous financial loss insurance and proportional <i>reinsurance</i>	12 and 24	18.6%	12.2%
13	Non-proportional casualty <i>reinsurance</i>	26	18.6%	15.9%
14	Non-proportional marine, aviation and transport <i>reinsurance</i>	27	18.6%	15.9%
15	Non-proportional property <i>reinsurance</i>	28	18.6%	15.9%

<u>16</u>	<u>Non-proportional health reinsurance</u>	<u>25</u>	<u>18.6%</u>	<u>15.9%</u>
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Annex D

Amendments to the Composites Part

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...

4 MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT

...

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:

- (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:

$$NMCR_{gi} = \max(NMCR_{(combined,gi)}, AMCR_{gi})$$

where:

- (1) $NMCR_{(combined,gi)}$ denotes the notional combined general insurance minimum capital requirement prescribed in 4A.3; and
- (2) $AMCR_{gi}$ 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:

$$NMCR_{(combined,gi)} = \min(\max(NMCR_{(linear,gi)}, 0.25 \cdot (NSCR_{gi} + Addon_{gi})), 0.45 \cdot (NSCR_{gi} + Addon_{gi}))$$

where:

- (1) $NMCR_{(linear,gi)}$ denotes the notional linear minimum capital requirement for *general insurance business* prescribed in 4A.4;
- (2) $NSCR_{gi}$ denotes the *notional general insurance SCR*; and
- (3) $Addon_{gi}$ 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:

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

where:

- (1) $MCR_{(gi,gi)}$ denotes the linear formula component for *general insurance and reinsurance obligations* relating to *general insurance business* calculated in accordance with 4A.5; and
- (2) $MCR_{(li,gi)}$ 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 $MCR_{(gi,gi)}$ and $MCR_{(li,gi)}$ must be calculated in the same way as $MCR_{(linear,gi)}$ and $MCR_{(linear,li)}$ 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:

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

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:

$$NMCR_{(linear,i)} = MCR_{(gi,i)} + MCR_{(li,i)}$$

where:

- (1) $MCR_{(gi,i)}$ 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) $MCR_{(li,i)}$ 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 $MCR_{(gi,i)}$ and $MCR_{(li,i)}$ must be calculated in the same way as $MCR_{(linear,gi)}$ and $MCR_{(linear,li)}$ 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:

- (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:

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

where:

- (1) SCR denotes the *firm's SCR*, which must for the purposes of this Chapter exclude any *capital add-on*;
- (2) $\text{NMCR}_{(\text{linear}, \text{gi})}$ denotes the notional linear general insurance minimum capital requirement for *general insurance business* prescribed in 4A.4; and
- (3) $\text{NMCR}_{(\text{linear}, \text{I})}$ 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:

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

where:

- (1) SCR denotes the *SCR*, excluding any *capital add-on*;
- (2) $\text{NMCR}_{(\text{linear}, \text{gi})}$ denotes the notional linear general insurance minimum capital requirement for *general insurance business* prescribed in 4A.4; and
- (3) $\text{NMCR}_{(\text{linear}, \text{I})}$ denotes the notional linear minimum capital requirement for *long-term insurance business* prescribed in 4B.4.

...

6 LLOYD'S

...

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 1* (accident) or *class 2* (sickness).

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

Annex E

Amendments to the Solvency Capital Requirement – General Provisions Part

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

...

3 GENERAL PROVISIONS FOR THE CALCULATION OF THE SCR

- 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

...

- 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

...

- 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.

1 APPLICATION AND DEFINITIONS

...

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.

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~~ *internal model*; and
- (2) to the extent of its ~~*internal model approval*~~ *internal model permission*.

- 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~~ 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*;

...

- (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

- 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

- 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

- 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

- 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*]

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

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

- 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

- 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

...

- 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 that:

- (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) 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;
- (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

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 11.8¹³.

[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*]

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 Technical Provisions – Further Requirements 8.1 – 8.5, 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).

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]

~~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

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.

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

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

...

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

...

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

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 the Solvency Capital Requirement - Standard Formula Part 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, a 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, a 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

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*.

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 Solvency Capital Requirement - Standard Formula 6.1(3), 6.3 and 6.4, but with the following changes:

- (1) the *basic SCR* referred to in Solvency Capital Requirement - Standard Formula 6.3(1) and (2) and 6.4(1) is calculated in accordance with 16C to 16G;
- (2) Solvency Capital Requirement - Standard Formula 6.3(2)(a) to (d) apply only to calculations with the *standard formula*;
- (3) for the purposes of Solvency Capital Requirement - Standard Formula 6.3(2) 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 Solvency Capital Requirement - Standard Formula 6.4(1)(c) 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 Solvency Capital Requirement - Standard Formula 3F1.

16D PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 2

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

$$\text{BSCR} = \sqrt{\sum_{i,j} \text{Corr}_{(i,j)} \cdot \text{SCR}_i \cdot \text{SCR}_j} + \text{SCR}_{\text{int}}$$

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_{int} denotes the capital requirement for intangible asset risk as set out in Solvency Capital Requirement - Standard Formula 3F1.

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 Solvency Capital Requirement - Standard Formula 3.6;
 - (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 Solvency Capital Requirement - Standard Formula 3C8.1; and

- (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:

- (1) S_c 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) ω_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) ω_2 denotes the second implied correlation parameter as set out in 16E.3;
- (5) P_s 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 Solvency Capital Requirement - Standard Formula 3F1.

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_s is defined as in 16E.1(1);
- (4) d_1 is equal to 1 where S_s or S_c are zero and equal to zero where S_s 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 ω_1 is as defined in 16E.2 and ω_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_s and P_c are as defined in 16E.1;
- (2) d_2 is equal to 1 where P_s or P_c are zero and equal to zero where P_s 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:

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

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) *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) *SCR_{int}* denotes the capital requirement for intangible asset risk as set out in Solvency Capital Requirement - Standard Formula 3F1.

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*;

- (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) SCR_{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) SCR_{int} must be set to zero.

16G PARTIAL INTERNAL MODEL INTEGRATION TECHNIQUE 5

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

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

where:

- (1) $P, S_S, k, n, \text{Corr}_{(i,j)}$ 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) $P, S_S, k, n, \text{Corr}_{(i,j)}$ 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) $P, S_S, k, n, \text{Corr}_{(i,j)}$ 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**Transitional Measure on Technical Provisions Part**

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

Part**TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS**

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**

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 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).

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.

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*.

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:

- (1) where a *firm* elects to calculate a *dynamic portion*, the *dynamic insurance and reinsurance obligations*; and
- (2) the values of 'Z_A', 'Z_B' and 'C₀' 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:

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

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_A' as follows:

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

where:

A_0 = 'A₀' 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_B' as follows:

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

where:

B_0 = 'B₀' 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_A' 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_B' as calculated in 4.2(5) with the *dynamic portion*, calculated as at the final day of the relevant reporting period;

C_r = 'C₀' 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_r' 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_r' as follows:

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

where:

A_7 = the projected *risk margin portion* as at 1 January 2032, multiplied by 'Z_A';

B_7 = the projected *dynamic portion* as at 1 January 2032, multiplied by 'Z_B';

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

W_q = the value of 'W_r', if any, as at the final day of the previous reporting period; and

R =

- (a) if the reporting period is quarterly, 4; or
- (b) if the reporting period is annual, 1.

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*;
 - (2) update the values of ' Z_A ', ' Z_B ' and ' C_0 ' used in 5 to reflect any change in the *firm's qualifying insurance and reinsurance obligations*; and
 - (3) calculate ' W_t ' 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_A ', ' Z_B ' and ' C_0 ' 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 H

Amendments to the Transitional Measures 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:

...

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~~ 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*.

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.

...

Annex I

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.

...

Annex J

Amendments to the Third Country Branches 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:

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* to cover the insurance and *reinsurance* obligations assumed by the *third country branch undertaking* in the *UK*, calculated in accordance with 6.1A to 6.1E.~~
- 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 3; and
- (4) subject to 6.1B, in accordance with:

- (a) 6.1C to 6.1F;
- (b) Technical Provisions 9 to 12;
- (c) Technical Provisions 14;
- (d) Technical Provisions – Further Requirements 2 to 5;
- (e) Technical Provisions – Further Requirements 10 to 12;
- (f) Technical Provisions – Further Requirements 23 and 24; and
- (g) Technical Provisions – Further Requirements 26 and 27

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

6.1B In Technical Provisions – Further Requirements 2.1, the reference to ‘and the *risk margin*’ is to be disregarded.

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

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

- (1) Technical Provisions 3;
- (2) Technical Provisions 5 and 8;
- (3) the Matching Adjustment Part;
- (4) Technical Provisions – Further Requirements 6 to 9 (other than 7.2);
- (5) Technical Provisions – Further Requirements 13 to 21; and
- (6) Technical Provisions – Further Requirements 25.

where a reference to ‘best estimate’ is to be interpreted as *branch best estimate* and a reference to ‘technical provisions’ is to be interpreted as the provisions referred to in 6.1.

6.1E Where:

- (1) future cash-flows associated with insurance or *reinsurance* obligations can be replicated reliably;
- (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, and calculated in accordance with Technical Provisions – Further Requirements 22, where references to ‘Technical Provisions 2.5(2)(a)’ is to be interpreted as a reference to ‘6.1E of the Third Country Branches Part’ and references to ‘technical provisions’ are to be interpreted as the provisions referred to in 6.1.

6.1F

- (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 6.1D.

...

- 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* where, except for Valuation 9.4(2)(a), a reference to '*technical provisions*' is to be interpreted as the provisions referred to in 6.1, a reference to the 'Technical Provisions Part' is to be interpreted as a reference to 'Third Country Branches 6' and a reference to the 'Solvency Capital Requirement – General Provisions Part' can be disregarded.
- 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 7.12:

- (1) Conditions Governing Business 1;
(1A) Conditions Governing Business 1A;
- (2) Conditions Governing Business 2.2 to 2.6 (other than 2.2(3)(e)); and
(2A) Conditions Governing Business 2A (other than 2A.4);
- (3) Conditions Governing Business 3 ~~to 7~~ (other than 3.1(2)(b), 3.1A(8), 3.3, 3.5(3)(a), 3.5(3)(b), 3.8(2)(b)(i), 3.8(2)(c), 3.8(4), 3.8(5), 3.12(3) and 3.12(4));
(3A) Conditions Governing Business 3A;
- (4) Conditions Governing Business 4 to 7; and
- (5) Conditions Governing Business 11A, 11B, 11C, 11D, 11E and 11F.

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:~~
 - ~~(a) [deleted-]~~

- (b) ~~[deleted-]~~
- (c) ~~the *branch technical provisions*~~provisions referred to in 6.1 of this Part.
- (4) A reference to ~~“function”~~ is to be interpreted as a reference to the *functions* performed in relation to the operations effected by the *third country branch* and includes the *function* of *authorised UK representative*.
- (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) ~~A reference to ‘the Technical Provisions Part’ should be read as a reference to 6.1 of this Part.~~
- (8) ~~A reference to ‘the Investments Part’ should be read as a reference to 8.3 of this Part.~~
- (9) ~~A reference to ‘the Valuation Part’ should be read as a reference to 6.3 of this Part.~~
- 7.3 ~~A third country branch undertaking must apply the requirements referred to in 7.1 taking account only of matters relevant to the operations effected by the third country branch.~~
- 7.4 ~~[Deleted-]~~
- 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 1A.1 references to the following defined terms are to be disregarded:~~
 - (a) ~~‘own funds’;~~
 - (b) ~~‘SCR’; and~~
 - (c) ~~‘MCR’.~~
 - (3) ~~In Conditions Governing Business 3.2, references to ‘and eligible own funds’ are to be disregarded.~~
 - (4) ~~In Conditions Governing Business 3.5(2)(c) reference to ‘the firm as a whole’ should be read as ‘the third country branch’.~~
 - (5) ~~In Conditions Governing Business 3.6, 3.6A and 3.6B to 3.6F references to the SCR are to be disregarded.~~
 - (6) ~~In Conditions Governing Business 3.8A(1)(b) a reference to ‘own funds item’ is to be interpreted as a reference to the provisions referred to in 6.1 of this Part.~~
 - (7) ~~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.~~
- 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.~~
- 7.8 ~~In Conditions Governing Business 4.2(1) ‘to the extent that these apply to third country branches in accordance with the Third Country Branches Part’ should be added after ‘deriving from FSMA that apply to UK Solvency II firms’.~~

- 7.9 In Conditions Governing Business 7.1 ‘to the extent that these apply to *third country branches* in accordance with the Third Country Branches Part’ should be added after ‘deriving from *FSMA* that apply to *UK Solvency II firms*’.
- 7.10 In Conditions Governing Business 11B.1(1) reference to Technical Provisions 13 should be interpreted as a reference to 6.1F of this Part.
- 7.11 In Conditions Governing Business 11B.1(2)(g) the references to Chapter 14 and rules 2.1 to 2.3 of the Technical Provisions Part should be interpreted as references to 6.1 of this Part.
- 7.12 In Conditions Governing Business 11B.1(2)(a) to (e), 11C.2(2) and 11C.3(8) the references to Technical Provisions - Further Requirements should be interpreted in accordance with Chapter 6 of this Part.

...

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~~
- ~~(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 "*pre-Solvency II MCR*" is to be interpreted as a reference to *pre-Solvency II branch MCR*; and~~
- ~~(4) any other necessary modification. [Deleted]~~

...

Annex K

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

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*;

...

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]

Annex L

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.

Annex M

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:

...

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*.

...

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

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:

- (1) in the case of a UK ISPV, it complies with the requirements set out in Insurance Special Purpose Vehicles 2, 2A to 2C and 5A.1 to 5A.5; 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 Insurance Special Purpose Vehicles 2, 2A to 2C and 5A.1 to 5A.5.

For the purposes of this rule, Insurance Special Purpose Vehicles 2, 2A to 2C and 5A.1 to 5A.5 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:

- (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 Own Funds 3A – 3J 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 Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5; 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 ‘SCR’ in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 shall mean both the SCR of the *related undertaking* that has issued the *own funds* item and the *group SCR*;
- (2) the term ‘MCR’ in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 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, references to ‘*firm*’ in Own Funds 3A – 3J in the context of the characteristics and features of an *own funds* item 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 Own Funds 3E.1(11), 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 Own Funds 4A.3 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

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 Own Funds 3A – 3J 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 Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5; 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) references to 'SCR' in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 shall mean the *group SCR*;
- (2) references to 'MCR' in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 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

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 Own Funds 3A – 3J provided that all of the following requirements are met:

- (1) the *undertaking* complies with the requirements set out in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5;
- (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 'SCR' in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 shall mean the *group SCR*;
- (2) the term 'MCR' in Own Funds 3B.1 – 3B.13, 3E.1 – 3E.5 and 3G.1 – 3G.5 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, references to 'firm' in Own Funds 3A – 3J in the context of the characteristics and features of an *own funds* item 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

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

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 Own Funds 3A – 3J.

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

...

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 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 within a ring-fenced fund.

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 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 acts*~~ is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation and paragraph (3) of regulation 13 of the *IRPR regulations* does not apply, 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

...

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*;

- (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 Valuation 9.3, 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 Valuation 9.1 – 9.6, 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*, *Technical Provisions*, *Technical Provisions – Further Requirements and Matching Adjustment Parts*; and
 - (2) the proportional share referred to in 8.2(1) of the *best estimate*, calculated in accordance with the *Valuation*, *Technical Provisions*, *Technical Provisions – Further Requirements and Matching Adjustment 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).

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 Conditions Governing Business 11C 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 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 Valuation 9 and Solvency Capital Requirement – Standard Formula 3D7 - 3D11, 3D26 – 3D31 and 3D32; 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 the *look-through approach* is applied at solo level, the amount determined in accordance with the *look-through approach*.
- 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 Solvency Capital Requirement – Standard Formula 3D32.2 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 Solvency Capital Requirement – Standard Formula 3D32.1.

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~~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*:
- (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

...

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, Technical Provisions, Technical Provisions – Further Requirements and Matching Adjustment Parts; and
- (2) the proportional share as referred to in 8.2(2) of the best estimate, calculated in accordance with the Valuation, Technical Provisions, Technical Provisions – Further Requirements and Matching Adjustment 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

...

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

...

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 and 4A, Group Supervision 10.3 shall apply.

...

16 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

...

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;*

(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

...

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

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

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 an overseas jurisdiction designated under regulation 11 in relation to regulation 14 of the IRPR regulations in respect of insurance group supervision and paragraph (3) of regulation 14 of the IRPR regulations applies.~~
- (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

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

[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

...

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 4 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019~~ an overseas jurisdiction designated under regulation 11 in relation to regulation 14 of the *IRPR regulations* in respect of insurance group supervision and paragraph (3) of regulation 14 of the *IRPR regulations* applies.

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]

EXTERNALLY DEFINED TERMS

Term	Definition source
investment firm	Section 424A of FSMA

PRA RULEBOOK: SOLVENCY II REPORTING 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); and
 - (4) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.
- 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 Reporting Reform Instrument 2024

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

Part	Annex
Reporting	A
External Audit	B
Fees	C

Templates, Annexes and instruction documents

- D. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by “[here](#)”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- E. This instrument comes into force on 31 December 2024.

Citation

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

By order of the Prudential Regulation Committee

5 November 2024

Annex A

Amendments to the Reporting Part

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

Part

REPORTING

Chapter content

1. APPLICATION AND DEFINITIONS
2. REPORTING TO THE PRA
- 2A. REPORTING TO THE PRA: REPORTS AND TEMPLATES
- ARTICLE 1 APPLICATION
- ARTICLE 2 SUPERVISORY REPORTING FORMATS
- ARTICLE 3 CURRENCY
- ARTICLE 4 RE-SUBMISSION OF DATA
- ARTICLE 4A MATERIALITY
- ARTICLE 5 QUANTITATIVE TEMPLATES FOR THE OPENING INFORMATION FOR INDIVIDUAL FIRMS
- ARTICLE 6 QUARTERLY TEMPLATES FOR INDIVIDUAL FIRMS
- ARTICLE 7 SIMPLIFICATIONS ALLOWED ON QUARTERLY REPORTING FOR INDIVIDUAL FIRMS
- ARTICLE 7A SEMI-ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS
- ARTICLE 8 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - BASIC INFORMATION AND CONTENT OF SUBMISSION
- ARTICLE 9 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - BALANCE SHEET AND OTHER GENERAL INFORMATION
- ARTICLE 10 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INVESTMENTS INFORMATION
- ARTICLE 11 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - TECHNICAL PROVISIONS INFORMATION
- ARTICLE 12 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - LONG TERM GUARANTEES INFORMATION
- ARTICLE 13 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - OWN FUNDS AND PARTICIPATIONS INFORMATION

<u>ARTICLE 14</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - SOLVENCY CAPITAL REQUIREMENT INFORMATION</u>
<u>ARTICLE 15</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - MINIMUM CAPITAL REQUIREMENT INFORMATION</u>
<u>ARTICLE 16</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - VARIATION ANALYSIS INFORMATION</u>
<u>ARTICLE 17</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION</u>
<u>ARTICLE 18</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - RING- FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION</u>
<u>ARTICLE 18A</u>	<u>ANNUAL TEMPLATES FOR INDIVIDUAL FIRMS – MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION</u>
<u>ARTICLE 19</u>	<u>ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR INDIVIDUAL FIRMS - INTERNAL MODEL ANALYSIS OF CHANGE</u>
<u>ARTICLE 20</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INTRA- GROUP TRANSACTIONS INFORMATION</u>
<u>ARTICLE 21</u>	<u>QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INTRA-GROUP TRANSACTIONS INFORMATION</u>
<u>ARTICLE 21A</u>	<u>ADDITIONAL ANNUAL AND QUARTERLY QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS</u>
<u>ARTICLE 22</u>	<u>QUANTITATIVE TEMPLATES FOR THE OPENING INFORMATION FOR GROUPS</u>
<u>ARTICLE 23</u>	<u>QUARTERLY QUANTITATIVE TEMPLATES FOR GROUPS</u>
<u>ARTICLE 24</u>	<u>SIMPLIFICATIONS ALLOWED ON QUARTERLY REPORTING FOR GROUPS</u>
<u>ARTICLE 25</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - BASIC INFORMATION AND CONTENT OF SUBMISSION</u>
<u>ARTICLE 26</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - BALANCE SHEET AND OTHER GENERAL INFORMATION</u>
<u>ARTICLE 27</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - INVESTMENTS INFORMATION</u>
<u>ARTICLE 28</u>	<u>ANNUAL QUANTITATIVE REPORTING TEMPLATES FOR GROUPS - VARIABLE ANNUITIES INFORMATION</u>

<u>ARTICLE 29</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - LONG TERM GUARANTEES INFORMATION</u>
<u>ARTICLE 30</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - OWN FUNDS INFORMATION</u>
<u>ARTICLE 31</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - SOLVENCY CAPITAL REQUIREMENT INFORMATION</u>
<u>ARTICLE 32</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - REINSURERS AND SPECIAL PURPOSE VEHICLES INFORMATION</u>
<u>ARTICLE 33</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - GROUP SPECIFIC INFORMATION</u>
<u>ARTICLE 34</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - RING-FENCED FUNDS AND REMAINING PART INFORMATION</u>
<u>ARTICLE 35</u>	<u>ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR GROUPS - INTERNAL MODEL ANALYSIS OF CHANGE</u>
<u>ARTICLE 36</u>	<u>QUANTITATIVE TEMPLATES FOR GROUPS - INTRA-GROUP TRANSACTIONS AND RISK CONCENTRATIONS</u>
<u>ARTICLE 37</u>	<u>QUARTERLY QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS</u>
<u>ARTICLE 38</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BASIC INFORMATION AND CONTENT OF SUBMISSION</u>
<u>ARTICLE 39</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BALANCE SHEET AND OTHER GENERAL INFORMATION</u>
<u>ARTICLE 40</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - BRANCH PROVISIONS INFORMATION</u>
<u>ARTICLE 41</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION</u>
<u>ARTICLE 42</u>	<u>ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION</u>
<u>ARTICLE 42A</u>	<u>ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION</u>

<u>ARTICLE 43</u>	<u>ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - BASIC INFORMATION AND CONTENT OF SUBMISSION</u>
<u>ARTICLE 44</u>	<u>ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - BALANCE SHEET AND OTHER GENERAL INFORMATION</u>
<u>ARTICLE 45</u>	<u>ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - BRANCH PROVISIONS INFORMATION</u>
<u>ARTICLE 46</u>	<u>ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION</u>
<u>ARTICLE 47</u>	<u>ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION</u>
<u>ARTICLE 47A</u>	<u>ANNUAL TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION</u>
<u>ARTICLE 48</u>	<u>ANNUAL LEGAL ENTITY QUANTITATIVE TEMPLATE IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS</u>
<u>ARTICLE 49</u>	<u>TRIENNIAL RESOLUTION REPORT IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS</u>
<u>ARTICLE 50</u>	<u>ADDITIONAL ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS</u>
3.	PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT
<u>3A.</u>	<u>SOLVENCY AND FINANCIAL CONDITION REPORT: REPORT AND TEMPLATES</u>
<u>ARTICLE 1</u>	<u>SUBJECT MATTER</u>
<u>ARTICLE 1A</u>	<u>STRUCTURE OF THE SOLVENCY AND FINANCIAL CONDITION REPORT (ANNEX XX)</u>
<u>ARTICLE 2</u>	<u>PUBLIC DISCLOSURE FORMATS</u>
<u>ARTICLE 3</u>	<u>CURRENCY</u>
<u>ARTICLE 3A</u>	<u>MATERIALITY</u>
<u>ARTICLE 3B</u>	<u>MEANS OF DISCLOSURE OF THE SOLVENCY AND FINANCIAL CONDITION REPORT</u>

<u>ARTICLE 4</u>	<u>TEMPLATES FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT OF INDIVIDUAL FIRMS</u>
<u>ARTICLE 5</u>	<u>TEMPLATES FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT OF GROUPS</u>
<u>ARTICLE 6</u>	<u>REFERENCES TO OTHER DOCUMENTS IN THE SOLVENCY AND FINANCIAL CONDITION REPORT</u>
<u>ARTICLE 7</u>	<u>CONSISTENCY OF INFORMATION</u>
<u>ARTICLE 7A</u>	<u>ADDITIONAL INFORMATION REQUIRED FOR THE GROUP SFCR</u>
<u>ARTICLE 7B</u>	<u>LANGUAGES</u>
<u>ARTICLE 7C</u>	<u>NON-DISCLOSURE OF INFORMATION</u>
<u>ARTICLE 7D</u>	<u>DEADLINES</u>
<u>ARTICLE 7E</u>	<u>UPDATES AND ADDITIONAL VOLUNTARY INFORMATION</u>
<u>ARTICLE 7F</u>	<u>SINGLE SFCR AS PROVIDED FOR IN GROUPS SUPERVISION 18</u>
<u>ARTICLE 8</u>	<u>INVOLVEMENT OF THE SUBSIDIARIES IN THE SINGLE SOLVENCY AND FINANCIAL CONDITION REPORT</u>
4.	PERMITTED NON-DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT
5.	UPDATES AND ADDITIONAL VOLUNTARY INFORMATION: SOLVENCY AND FINANCIAL CONDITION REPORT
...	
7.	LLOYD'S
8.	NATIONAL SPECIFIC TEMPLATES[DELETED]
<u>9.</u>	<u>REPORTING AND DISCLOSURE TEMPLATES</u>
<u>10.</u>	<u>REPORTING AND DISCLOSURE TEMPLATES DATA ITEM INSTRUCTIONS</u>

Annex A

Amendments to the Reporting Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II* firm; ~~and~~
- (2) in accordance with General Application 3 and Group Supervision 1.1(2), the *Society*;
- (3) in accordance with General Application 3, *managing agents*, for the purposes of 7;
- (4) a UK holding company; and
- (5) a third country branch undertaking (other than a Swiss general insurer), in accordance with 1.3.

1.2 In this part, the following definitions shall apply:

...

controller

has the meaning given in section 422 of FSMA, read in conjunction with the Exemption Order.

Exemption Order

means the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774).

...

1.3

- (1) Unless otherwise stated, in this Part, 2.1 to 2.5B, 2.13 and Articles 1 to 4A and 37 to 50 of Chapter 2A apply to third country branch undertakings (other than Swiss general insurers).
- (2) Except in respect of 2.2(2)(f) and Articles 48 and 49 of Chapter 2A, a third country branch undertaking must fulfil the applicable requirements in this Part taking account only of matters relevant to the operations effected by the third country branch.
- (3) In relation to third country branch undertakings, 2.2(2)(f) is to be read as referring only to the adequacy of the financial resources of the firm.

2 REPORTING TO THE PRA

...

2.2 The information referred to in 2.1 must:

- (1) be submitted in the applicable format or template (if any) provided in ~~the Solvency II Regulations~~ the Reporting Part or in the form of any ~~national specific template where applicable~~; and

...

- 2.5 A *firm* must have in place appropriate systems and structures to fulfil the requirements set out in 2.1 to 2.4, as well as a written policy approved by its *governing body* ensuring the ongoing appropriateness of the information submitted by the *firm* to the *PRA*.

[Note: Art. 35(5) of the *Solvency II Directive*]

2.5A As part of the information referred to in 2.1, a *firm* is required to submit to the *PRA* on a regular basis:

- (1) the *SFCR* (if applicable) to be disclosed in accordance with Chapters 3 to 6, and/or Group Supervision 18, together with any equivalent information disclosed publicly under other legal or regulatory requirements to which the *SFCR* refers;
- (2) the following reports:
 - (a) a report comprising the results of each *ORSA* performed, in accordance with Conditions Governing Business 3.12;
 - (b) if the *firm* is a *third country branch undertaking*, a resolution report in accordance with Article 49 of Chapter 2A;
 - (c) for *firms* using an *internal model*, the qualitative information supporting template QMC.01 in accordance with Article 6(3) of Chapter 2A;
 - (d) for *firms* using an *internal model*, the qualitative analysis supporting template AoC.01 in accordance with Articles 19 and 35 of Chapter 2A; and
 - (e) for *firms* with a *matching adjustment permission*, the *matching adjustment* asset and liability information templates MALIR 1 - MALIR 7 in accordance with Articles 18A, 42A and 47A of Chapter 2A;
- (3) annual, semi-annual and quarterly quantitative templates in accordance with Chapters 2A and 7.

2.5B

- (1) A *firm* must submit the *ORSA* report referred to in 2.5A(2)(a) within 10 *business days* after concluding the *ORSA*.
- (2) A *firm* must submit the quarterly quantitative reporting templates referred to in Articles 6(1), 21A(6) and 37 of Chapter 2A no later than 30 *business days* after the end of each quarter of the *firm's* financial year.
- (3) A *firm* must submit the quarterly quantitative reporting template QMC.01 (including the supporting qualitative information) referred to in Article 6(3) of Chapter 2A no later than 55 *business days* after the end of each quarter of the *firm's* financial year.
- (4) A *firm* must submit the semi-annual quantitative reporting template referred to in Article 7A of Chapter 2A no later than 30 *business days* after the end of each half of the *firm's* financial year.
- (5) A *firm* must submit the annual quantitative reporting templates referred to in Articles 8 to 18, 20, 21A, 38 to 48 and 50 of Chapter 2A no later than 70 *business days* after the *firm's* financial year end.

- (6) A firm must submit the quarterly quantitative reporting templates referred to in Article 23 of Chapter 2A no later than 55 business days after the end of each quarter of the group's financial year.
- (7) A firm must submit the annual quantitative reporting templates referred to in Articles 25 to 34 of Chapter 2A no later than 100 business days after the group's financial year end.
- (8) A firm must submit the annual quantitative reporting template AoC.01, (including the supporting qualitative analysis), referred to in Article 19 of Chapter 2A no later than 70 business days after the firm's financial year end, commencing with the firm's first financial year end on or after 31 December 2025 or, if the firm first receives internal model permission which takes effect after 31 December 2025, commencing with the firm's first financial year end after the date that internal model permission took effect.
- (9) A firm must submit the annual quantitative reporting template AoC.01 (including the supporting qualitative analysis), referred to in Article 35 of Chapter 2A no later than 100 business days after the group's financial year end, commencing with the group's first financial year end on or after 31 December 2025, or, if the group first receives internal model permission which takes effect after 31 December 2025, commencing with the group's first financial year end after the date that internal model permission took effect.
- (10) A third country branch undertaking must submit the resolution report referred to in Article 49(1) of Chapter 2A no later than 70 business days after (i) the firm's first financial year end on or after 31 December 2024; and (ii) every third financial year end thereafter.
- (11) A firm must submit the matching adjustment asset and liability information templates MALIR 1 - MALIR 7 referred to in Articles 18A, 42A and 47A of Chapter 2A no later than 130 business days, after the firm's financial year end commencing with (i) the firm's first financial year end on or after 31 December 2024; or (ii) if later, the firm's first financial year end after the date that the firm's matching adjustment permission took effect.
- (12) A firm must disclose:
 - (a) the SFCR referred to in 2.5A(1) no later than 70 business days after the firm's financial year end; and/or
 - (b) where applicable, the SFCR under Group Supervision 18 no later than 100 business days after the firm's financial year end.

2.6 ~~Subject to 2.7, a firm falling within categories (1) to (7) must submit to the PRA the corresponding national specific templates on an annual basis:~~

- ~~(1) [Deleted]~~
- ~~(1A) All firms must submit template NS.00: Basic Information;~~
- ~~(2) A firm which manages a material pooling agreement must submit template NS.03: Material Pooling Arrangements;~~
- ~~(3) An assessable mutual which:~~
 - ~~(a) has called for an additional contribution after 1 January 2006; or~~
 - ~~(b) has received approval for ancillary own funds as contemplated in Own Funds 2.3(4)~~
 - ~~-must submit template NS.04: Assessable Mutuals;~~
- ~~(4) A firm writing suretyship business the effect of which is to improve the credit rating of the underlying security must submit template NS.08: Business Model Analysis—Financial Guarantee Insurers;~~
- ~~(5) A long-term insurer must submit:~~

- ~~(a) NS.01: With-Profits Value of Bonus if net *best estimate* liabilities for *with-profits insurance business* are more than £500m and the *firm* is a single *with-profits fund*;~~
 - ~~(b) NSR.01: With-Profits Value of Bonus for each ring-fenced fund which is also a *with-profits fund* and for the remaining part where this is a *with-profits fund* if net *best estimate* liabilities for *with-profits insurance business* are more than £500m for the *firm* as a whole;~~
 - ~~(c) NS.02: With-Profits Assets and Liabilities if net *best estimate* liabilities for *with-profits insurance business* are more than £500m and the *firm* is a single *with-profits fund*;~~
 - ~~(d) NSR.02: With-Profits Assets and Liabilities for each ring-fenced fund which is also a *with-profits fund* and for the remaining part where this is a *with-profits fund* if net *best estimate* liabilities for *with-profits insurance business* are more than £500m for the *firm* as a whole;~~
 - ~~(e) NS.05: Revenue Account—Life;~~
 - ~~(f) NSR.05 Revenue Account—Life for the remaining part and each ring-fenced fund which is also a *with-profits fund* if the *firm* has one or more ring-fenced funds which is also a *with-profits fund*;~~
 - ~~(g) NS.06: Business Model Analysis—Life if gross technical provisions for life business (including health similar to long-term business) are more than £500m; and~~
 - ~~(h) NS.09: Best Estimate Assumptions for Life Insurance Risks;~~
 - ~~(6) A general insurer must submit template NS.07: Business Model Analysis—Non-life;~~
 - ~~(7) A general insurer carrying on *insurance business* and proportional and non-proportional *reinsurance* obligations relating to:~~
 - ~~(a) *railway rolling stock*;~~
 - ~~(b) *aircraft*;~~
 - ~~(c) *ships*;~~
 - ~~(d) *goods in transit*;~~
 - ~~(e) *motor vehicle liability*;~~
 - ~~(f) *aircraft liability*;~~
 - ~~(g) *liability of ships*; or~~
 - ~~(h) *general liability*~~
 - ~~—must submit template NS.10: Projection of Future Cash Flows (Best Estimate—Non-Life: Liability Claim Types);~~
 - ~~(8) A general insurer carrying on *insurance business* relating to:~~
 - ~~(a) *employers' liability* (including as part of a *mixed commercial package*);~~
 - ~~(b) *public and products liability* (including as part of a *mixed commercial package*; or~~
 - ~~(c) *professional indemnity*~~
 - ~~must submit template NS.11: Non-Life Insurance Claims Information (General Liability Sub-classes)[Deleted]~~
- 2.7 A firm falling within 2.6(2), 2.6(3)(a) or 2.6(6) that does not have a *Part 4A permission to effect contracts of insurance* is not subject to the obligation to complete the corresponding *national specific template*.~~[Deleted]~~

- 2.8 ~~The Society must submit to the PRA the following national specific templates:~~
- ~~(1) template NS.12: The Society of Lloyd's Solvency Capital Requirement on an annual basis; and~~
 - ~~(2) template NS.13: The Society of Lloyd's Minimum Capital Requirement on a quarterly basis.[Deleted]~~
- 2.9 ~~For the purposes of 2.6 and 2.8, all amounts shown in units must be reported in UK sterling unless the national specific template expressly states otherwise.[Deleted]~~
- 2.10 ~~A firm shall submit the annual national specific templates referred to in 2.6 and 2.8(1), after the end of the transitional period set out in Transitional Measures 3.1, no later than 14 weeks after the firm's financial year end.[Deleted]~~
- 2.11 ~~The Society shall submit the quarterly national specific templates referred to in 2.8(2) after the end of the transitional period set out in Transitional Measures 3.3, no later than 5 weeks after any quarter ending.[Deleted]~~
- 2.12 ~~If the due date for the national specific template falls on a day which is not a business day, the documents must be submitted no later than the next business day after the due date.[Deleted]~~
- 2.13
- (1) A firm, other than a friendly society, shall submit to the PRA, the information referred to in 2.5A(1) to (3) ~~the national specific templates referred to in 2.6 and 2.8~~ in electronic format.
 - (2) A friendly society shall submit to the PRA the ~~national specific template referred to in 2.6 and 2.8~~ information referred to in 2.5A(1) to (3) in electronic format or by post or by hand to the Regulatory Data Group, Statistics and Regulatory Data Division (HO5-B-D), Bank of England, Threadneedle Street, London EC2R 8AH; or via fax to the Regulatory Data Group of the Bank of England on 020 7601 3334.
- 2.14 ~~Where a firm notifies the PRA that any of its submissions of national specific template submissions under 2.6 and 2.8 is incorrect, or where the PRA notifies a firm that any part of the national specific template appears to be inaccurate or incomplete, the firm must promptly make any appropriate corrections or adjustments and if necessary re-submit the national specific template (or relevant part of it).[Deleted]~~

2A REPORTING TO THE PRA: REPORTS AND TEMPLATES

I: GENERAL PROVISIONS AND SUPERVISORY REPORTING REQUIREMENTS

Article 1: APPLICATION

1. Articles 6 to 21A of this Chapter apply to firms other than third country branch undertakings.
2. Articles 23 to 36 of this Chapter apply to:
 - (a) firms or, where applicable, UK holding companies which are part of a group falling within Group Supervision 2.1(1) or Group Supervision 2.1(2), which are required to report information on a group to the PRA under the Group Supervision Part; and
 - (b) firms or, where applicable, UK holding companies which are part of a group under Group Supervision 2.1(3) in accordance with Group Supervision 20, which are required to report information on a group to the PRA under the Group Supervision Part.
3. Articles 37 to 50 of this Chapter apply to third country branch undertakings (other than Swiss general insurers).
4. Articles 4 and 4A of this Chapter do not apply to:

- (a) information *firms* are required to submit to the *PRA* using the templates referred to in Article 21A; and
- (b) information *third country branch undertakings* are required to submit to the *PRA* using the templates referred to in Article 50.

Article 2: SUPERVISORY REPORTING FORMATS

1. *Firms* and, where applicable, *UK holding companies*, must submit the information referred to in this Chapter in the appropriate data exchange formats and representations determined in accordance with this Reporting Part, as specified below:
 - (a) data points with the data type 'monetary' must be expressed in units with no decimals with the exception of templates IR.06.02, IR.08.01, and IR.11.01, which must be expressed in units with two decimals;
 - (b) data points with the data type 'percentage' must be expressed as per unit with four decimals;
 - (c) data points with the data type 'integer' must be expressed in units with no decimals;
 - (d) all data points must be expressed as positive values except in the following cases:
 - (i) they are of an opposite nature from the natural amount of the item;
 - (ii) the nature of the data point allows for positive and negative values to be reported; or
 - (iii) a different reporting format is required by the respective instructions set out in the Annexes.

Article 3: CURRENCY

1. For the purposes of this Chapter and Chapter 2, 'reporting currency' shall be:
 - (a) for individual reporting, the currency used for the preparation of the *firm's* financial statements;
 - (b) for group reporting, the currency used for the preparation of the consolidated financial statements.
2. Data points with the data type 'monetary' must be reported in the reporting currency, which requires the conversion of any other currency into the reporting currency unless otherwise stated in this Chapter.
3. When expressing the value of any asset or liability denominated in a currency other than the reporting currency, the value must be converted into the reporting currency as if the conversion had taken place at the closing rate on the last day for which the appropriate rate is available in the reporting period to which the asset or liability relates.
4.
 - (a) When expressing the value of any income or expense, the value must be converted into the reporting currency using such basis of conversion as that used for accounting purposes.
 - (b) When expressing the values of historical data denominated in a currency other than the reporting currency, such values related to previous reporting periods must be converted into the reporting currency based on the closing rate on the last day of the period being reported for which the conversion rate is available.
5. The conversion into the reporting currency must be calculated by applying the exchange rate from the same source as that used for the *firm's* financial statements in the case of individual reporting or for the consolidated financial statements in the case of group reporting.

Article 4: RE-SUBMISSION OF DATA

Firms and, where applicable, UK holding companies must re-submit as soon as practicable the information reported using the reports and templates referred to in this Chapter when the information originally reported has materially changed in relation to the same reporting period after the last submission to the PRA.

Article 4A: MATERIALITY

For the purposes of this Chapter, information to be submitted to the PRA in a report must be considered material where its omission or misstatement could influence the decision-making or judgement of the PRA, and changes to information submitted to the PRA in a report or template must be considered material if the change could influence the decision-making or judgement of the PRA.

II: REPORTING TEMPLATES FOR INDIVIDUAL FIRMS

Article 5: QUANTITATIVE TEMPLATES FOR THE OPENING INFORMATION FOR INDIVIDUAL FIRMS

[Note: Provision left blank]

Article 6: QUARTERLY TEMPLATES FOR INDIVIDUAL FIRMS

1. Firms must submit information to the PRA quarterly using the following templates (as applicable):
 - (a) template IR.01.01.02 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.01 of Chapter 9, specifying basic information on the firm and the content of reporting in general, following the instructions set out in section IR.01.02 of Chapter 10;
 - (c) template IR.02.01.02 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;
 - (d) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure following the instructions set out in section IR.05.03 of Chapter 10;
 - (e) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;
 - (f) subject to Article 10(1)(b) of this Chapter, template IR.06.02.01 of Chapter 9, providing an item-by-item list of assets following the instructions set out in section IR.06.02 of Chapter 10;
 - (g) subject to Article 10(1)(e) of this Chapter, template IR.08.01.01 of Chapter 9, providing an item-by-item list of open positions of derivatives, following the instructions set out in section IR.08.01 of Chapter 10;
 - (h) template IR.12.01.02 of Chapter 9, specifying information on life technical provisions, following the instructions set out in section IR.12.01 of Chapter 10;
 - (i) template IR.17.01.02 of Chapter 9, specifying information on non-life technical provisions for each line of business, following the instructions set out in section IR.17.01 of Chapter 10; and
 - (j) [Note: Provision left blank];
 - (k) template IR.23.01.01 of Chapter 9, specifying information on own funds, following the instructions set out in section IR.23.01 of Chapter 10;

(l) [Note: Provision left blank];

(m) [Note: Provision left blank].

2. When submitting the information referred to in points (h) and (i) of paragraph (1) of this Article, firms may apply simplified methods in accordance with the Technical Provisions and Technical Provisions – Further Requirements Parts of the PRA Rulebook in the calculation of the technical provisions.
3. Firms using an internal model must submit to the PRA quarterly template QMC.01 of Chapter 9, specifying information on model changes and supporting qualitative information, in accordance with the instructions set out in section QMC.01 of Chapter 10.

Article 7: SIMPLIFICATIONS ALLOWED ON QUARTERLY REPORTING FOR INDIVIDUAL FIRMS

1. With regard to the information referred to in point (c) of Article 6(1), quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data. The measurement procedures for the quarterly reporting must be designed to ensure that the resulting information is reliable and complies with the standards laid down in laws of the United Kingdom and that all material information that is relevant for the understanding of the data is reported.
2. [Note: Provision left blank]

Article 7A: SEMI-ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS

1. Firms must submit information to the PRA semi-annually, subject to Article 10(1)(c)(i) of this Chapter, where the ratio of collective investments held by the firm to total investments is higher than 30% using template IR.06.03.01 of Chapter 9, providing information on the look-through of all collective investments held by the firm, following the instructions set out in section IR.06.03 of Chapter 10.
2. For the purposes of paragraph 1 of this Article, the ratio of collective investments held by the firm to total investments must be determined by the sum of items C0010/R0180, collective investment undertakings included in item C0010/R0220 and collective investment undertakings included in item C0010/R0090 of template IR.02.01.02, divided by the sum of items C0010/R0070 and C0010/R0220 of template IR.02.01.02.

Article 8: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - BASIC INFORMATION AND CONTENT OF SUBMISSION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.01.01.01 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.01 of Chapter 9, specifying basic information on the firm and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10; and
 - (c) template IR.01.03.01 of Chapter 9, specifying basic information on the ring-fenced funds and matching adjustment portfolios, following the instructions set out in section IR.01.03 of Chapter 10.

**Article 9: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - BALANCE SHEET
AND OTHER GENERAL INFORMATION**

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.02.01.01 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the firm's financial statements, following the instructions set out in section IR.02.01 of Chapter 10;
 - (b) template IR.02.02.01 of Chapter 9, specifying information on assets and liabilities by currency, following the instructions set out in section IR.02.02 of Chapter 10;
 - (c) where any of the following conditions apply, template IR.03.01.01 of Chapter 9, specifying general information on off-balance sheet items, following the instructions set out in section IR.03.01 of Chapter 10:
 - (i) the amount of either of the following values is higher than 2% of total assets as set out in template IR.02.01.01 of Chapter 9:
(C0020/R0010) Value of guarantee/collateral/contingent liabilities - Guarantees provided by the firm, including letters of credit plus (C0020/R0300) Value of guarantee/collateral/contingent liabilities - Total collateral pledged plus (C0010/R0400) Maximum value - Total Contingent liabilities; or
(C0020/R0030) Value of guarantee/collateral/contingent liabilities - Guarantees received by the firm, including letters of credit plus (C0020/R0200) Value of guarantee/collateral/contingent liabilities - Total collateral held;
 - (ii) the firm has provided or received any unlimited guarantee;
 - (d) template IR.03.02.01 of Chapter 9, providing a list of off-balance sheet unlimited guarantees received, following the instructions set out in section IR.03.02 of Chapter 10;
 - (e) template IR.03.03.01 of Chapter 9, providing a list of off-balance sheet unlimited guarantees provided, following the instructions set out in section IR.03.03 of Chapter 10;
 - (f) template IR.05.02.01 of Chapter 9, specifying information on premiums, claims and expenses by country, applying the valuation and recognition principles used in the firm's financial statements, following the instructions set out in section IR.05.02 of Chapter 10;
 - (g) template IR.05.03.01 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;
 - (h) template IR.05.04.01 of Chapter 9, specifying information on non-life income, expenditure and business model analysis, following the instructions set out in section IR.05.04 of Chapter 10;
 - (i) template IR.05.05.01 of Chapter 9, specifying information on life premiums and claims by country, following the instructions set out in section IR.05.05 of Chapter 10;
 - (j) template IR.05.06.01 of Chapter 9, specifying information on non-life premiums and claims by country, following the instructions set out in section IR.05.06 of Chapter 10; and
 - (k) where life premiums (excluding unit-linked premiums) written in the most recent reporting year exceed £1 billion, template IR.05.10.01 of Chapter 9, specifying excess capital generation, following the instructions set out in section IR.05.10 of Chapter 10.

Article 10: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INVESTMENTS INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) [Note: Provision left blank];
 - (b) where the firm is exempted from reporting template IR.06.02.01 of Chapter 9 in relation to the last quarter of the firm's financial year in accordance with a direction given by the PRA under section 138A of FSMA, template IR.06.02.01 of Chapter 9, providing an item-by-item list of assets, following the instructions set out in section IR.06.02 of Chapter 10;
 - (c) where the firm:
 - (i) is exempted from reporting template IR.06.03.01 of Chapter 9 in relation to the last half-year of the firm's financial year in accordance with a direction given by the PRA under section 138A of FSMA; or
 - (ii) has not reported it semi-annually because the ratio of collective investments held by the firm to total investments (as referred to in Article 7A(1) of this Chapter), is not higher than 30%,
template IR.06.03.01 of Chapter 9, providing information on the look-through of all collective investments held by the firm, following the instructions set out in section IR.06.03 of Chapter 10;
 - (d) [Note: Provision left blank];
 - (e) where the firm is exempted from reporting template IR.08.01.01 in relation to the last quarter of the firm's financial year in accordance with a direction given by the PRA under section 138A of FSMA, template IR.08.01.01 of Chapter 9, providing an item-by-item list of open positions of derivatives, following the instructions set out in section IR.08.01 of Chapter 10;
 - (f) [Note: Provision left blank];
 - (g) template IR.09.01.01 of Chapter 9, specifying information on income, gains and losses in the reporting period by asset category, following the instructions set out in section IR.09.01 of Chapter 10;
 - (h) where the value of the underlying securities, on and off-balance sheet, involved in lending or repurchase agreements, for contracts with maturity dates falling after the reporting reference date, represents more than 5% of the total investments as reported in items C0010/R0070 and C0010/R0220 of template IR.02.01.01, template IR.10.01.01 of Chapter 9, providing an item-by-item list of securities lending and repurchase agreements, on and off-balance sheet, following the instructions set out in section IR.10.01 of Chapter 10; and
 - (i) where the ratio of the value of assets held as collateral to total balance sheet as reported in items C0010/R0500 of template IR.02.01.01 exceeds 10%, template IR.11.01.01 of Chapter 9, providing an item-by-item list of assets held as collateral, consisting of all types of off-balance sheet asset categories held as collateral, following the instructions set out in section IR.11.01 of Chapter 10.

Article 11: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS – TECHNICAL PROVISIONS INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.12.01.01 of Chapter 9, specifying information on life *technical provisions*, following the instructions set out in section IR.12.01 of Chapter 10;
 - (b) template IR.12.03.01 of Chapter 9, specifying information on life *best estimate liabilities* by country, following the instructions set out in section IR.12.03 of Chapter 10;
 - (c) template IR.14.01.01 of Chapter 9, specifying information on life obligations analysis including life insurance and *reinsurance contracts* and annuities stemming from non-life contracts, by product issued by the *firm*, following the instructions set out in section IR.14.01 of Chapter 10;
 - (d) template IR.16.01.01 of Chapter 9, specifying information on annuities stemming from non-life insurance obligations issued by the *firm* under direct insurance business, regarding all *lines of business* originating annuities and additionally by currency, following the instructions set out in section IR.16.01 of Chapter 10;
 - (e) template IR.16.02.01 of Chapter 9, specifying information on the projection of *best estimate* future cash flows of annuities stemming from non-life business, following the instructions set out in section IR.16.02 of Chapter 10;
 - (f) template IR.17.01.01 of Chapter 9, specifying information on non-life *technical provisions* by *line of business*, following the instructions set out in section IR.17.01 of Chapter 10;
 - (g) template IR.17.03.01 of Chapter 9, specifying information on non-life *best estimate liabilities* by country following the instructions set out in section IR.17.03 of Chapter 10;
 - (h) template IR.18.01.01 of Chapter 9, specifying information on the projection of future cash flows based on *best estimate* of the non-life business, following the instructions set out in section IR.18.01 of Chapter 10;
 - (i) template IR.19.01.01 of Chapter 9, specifying information on non-life insurance claims in the format of development triangles, for the total of each non-life *line of business* and additionally by currency, following the instructions set out in section IR.19.01 of Chapter 10;
 - (j) template IR.20.01.01 of Chapter 9, specifying information on the development of the distribution of the claims incurred at the end of the financial year for each *line of business*, following the instructions set out in section IR.20.01 of Chapter 10;
 - (k) template IR.21.02.01 of Chapter 9, specifying information on non-life *underwriting risks*, following the instructions set out in section IR.21.02 of Chapter 10; and
 - (l) template IR.21.04.01 of Chapter 9, specifying information on *cyber underwriting risk*, following instructions set out in section IR.21.04 of Chapter 10.

Article 12: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - LONG TERM GUARANTEES INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.22.01.01 of Chapter 9, specifying information on the impact of the long term guarantees and transitional measures, following the instructions set out in section IR.22.01 of Chapter 10;
 - (b) template IR.22.04.01 of Chapter 9, specifying information on the interest rate transitional measure, following the instructions set out in section IR.22.04 of Chapter 10; and

- (c) template IR.22.07.01 of Chapter 9, specifying information on the *best estimate* subject to *volatility adjustment* by currency, following the instructions set out in section IR.22.07 of Chapter 10.

Article 13: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - OWN FUNDS AND PARTICIPATIONS INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
- (a) template IR.23.01.01 of Chapter 9, specifying information on *own funds*, following the instructions set out in section IR.23.01 of Chapter 10;
 - (b) template IR.23.02.01 of Chapter 9, providing detailed information on *own funds* by tiers, following the instructions set out in section IR.23.02 of Chapter 10;
 - (c) template IR.23.03.01 of Chapter 9, specifying information on annual movements on *own funds*, following the instructions set out in section IR.23.03 of Chapter 10;
 - (d) template IR.23.04.01 of Chapter 9, providing a list of items on *own funds*, following the instructions set out in section IR.23.04 of Chapter 10; and
 - (e) template IR.24.01.01 of Chapter 9, specifying information on *participations* held by the *firm* and an overview of the calculation for the deduction from *own funds* related to *participations* in financial and credit institutions, following the instructions set out in section IR.24.01 of Chapter 10.

Article 14: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - SOLVENCY CAPITAL REQUIREMENT INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
- (a) template IR.25.04.01 of Chapter 9, specifying information in relation to the calculation of the *SCR*, following the instructions set out in section IR.25.04 of Chapter 10;
 - (b) where the *firm* uses a full *internal model* or a *partial internal model*, template IR.25.05.01, specifying information in relation to the calculation of the *SCR*, following the instructions set out in section IR.25.05 of Chapter 10;
 - (c) template IR.25.06.01, specifying the *SCR* – loss-absorbing capacity of deferred taxes, following the instructions set out in IR.25.06 of Chapter 10;
 - (d) template IR.26.01.01 of Chapter 9, specifying information on *market risk*, following the instructions set out in section IR.26.01 of Chapter 10;
 - (e) template IR.26.02.01 of Chapter 9, specifying information on *counterparty* default risk, following the instructions set out in section IR.26.02 of Chapter 10;
 - (f) template IR.26.03.01 of Chapter 9, specifying information on life *underwriting risk*, following the instructions set out in section IR.26.03 of Chapter 10;
 - (g) template IR.26.04.01 of Chapter 9, specifying information on health *underwriting risk*, following the instructions set out in section IR.26.04 of Chapter 10;
 - (h) template IR.26.05.01 of Chapter 9, specifying information on non-life *underwriting risk*, following the instructions set out in section IR.26.05 of Chapter 10;

- (i) template IR.26.06.01 of Chapter 9, specifying information on *operational risk*, following the instructions set out in section IR.26.06 of Chapter 10;
 - (j) template IR.26.07.01 of Chapter 9, specifying information on the simplifications used in the calculation of the *SCR*, following the instructions set out in section IR.26.07 of Chapter 10;
and
 - (k) template IR.27.01.01 of Chapter 9, specifying information on *SCR* (non-life and health catastrophe risk), following the instructions set out in section IR.27.01 of Chapter 10.
2. In relation to ring-fenced funds or *matching adjustment portfolios*, the templates referred to in points (d) to (k) of paragraph 1 are not required to be reported for the entity as a whole.
 3. Where a *partial internal model* is used, the templates referred to in points (d) to (k) of paragraph 1 are only required to be reported in relation to the risks covered by the *standard formula*.
 4. Where a full *internal model* is used, the templates referred to in points (d) to (k) of paragraph 1 are not required to be reported.

Article 15: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - MINIMUM CAPITAL REQUIREMENT INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) where firms carry on only *long-term insurance business*, or only *general insurance business* or *reinsurance business*, template IR.28.01.01 of Chapter 9, specifying information on the *MCR*, following the instructions set out in section IR.28.01 of Chapter 10;
 - (b) where firms carry on both *long-term insurance business* and *general insurance business*, template IR.28.02.01 of Chapter 9, specifying information on the *MCR*, following the instructions set out in section IR.28.02 of Chapter 10.

Article 16: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - VARIATION ANALYSIS INFORMATION

[Note: Provision left blank]

Article 17: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.30.05.01 of Chapter 9, specifying *reinsurer* and collateral provider entity information, following the instructions set out in section IR.30.05 of Chapter 10;
 - (b) [Note: Provision left blank];
 - (c) template IR.30.03.01 of Chapter 9, specifying information on the outwards *reinsurance contracts* in the next reporting year covering information on outwards *reinsurance* facultative and treaty arrangements the period of validity of which includes or overlaps with the next reporting year, following the instructions set out in section IR.30.03 of Chapter 10;
 - (d) template IR.30.04.01 of Chapter 9, specifying information on *reinsurer* participations on outwards *reinsurance contracts* in the next reporting year covering information on outwards *reinsurance* facultative and treaty arrangements the period of validity of which

includes or overlaps with the next reporting year, following the instructions set out in section IR.30.04 of Chapter 10;

- (e) template IR.31.01.01 of Chapter 9, specifying information on outwards *reinsurance* balance sheet exposures, following the instructions set out in section IR.31.01 of Chapter 10;
- (f) [Note: Provision left blank];
- (g) template IR.30.06.01 of Chapter 9, specifying life outwards *reinsurance* summary, following the instructions set out in section IR.30.06 of Chapter 10;
- (h) template IR.30.07.01 of Chapter 9, specifying life outwards *reinsurance* proportional cover, following the instructions set out in section IR.30.07 of Chapter 10; and
- (i) template IR.30.08.01 of Chapter 9, specifying life outwards *reinsurance* non-proportional cover following the instructions set out in section IR.30.08 of Chapter 10.

Article 18: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

1. Firms must submit information in relation to each ring-fenced fund, each *matching adjustment portfolio* and the remaining part to the PRA annually using the following templates (as applicable):
 - (a) template IRR.01.01.01 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IRR.02.01.01 of Chapter 9, specifying balance sheet information using both the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the *firm's* financial statements, following the instructions set out in section IR.02.01 of Chapter 10;
 - (c) template IRR.12.01.01 of Chapter 9, specifying information on life *technical provisions*, following the instructions set out in section IR.12.01 of Chapter 10;
 - (d) template IRR.17.01.01 of Chapter 9, specifying information on non-life *technical provisions* for each *line of business* following the instructions set out in section IR.17.01 of Chapter 10;
 - (e) template IRR.22.02.01 of Chapter 9, specifying information on the projection of future cash flows for the *best estimate* calculation by each *matching adjustment portfolio*, following the instructions set out in section IR.22.02 of Chapter 10;
 - (f) template IRR.22.03.01 of Chapter 9, specifying information on each *matching adjustment portfolio*, following the instructions set out in section IR.22.03 of Chapter 10;
 - (g) template IRR.25.04.01 of Chapter 9, specifying information in relation to the calculation of the notional SCR (ring-fenced funds, *matching adjustment portfolios* and remaining part), following the instructions set out in section IR.25.04 of Chapter 10;
 - (h) where the *firm* uses a full *internal model* or a *partial internal model*, template IRR.25.05.01 of Chapter 9, specifying information on the notional SCR (ring-fenced funds, *matching adjustment portfolios*, remaining part), following the instructions set out in section IR.25.05 of Chapter 10;
 - (i) [Note: Provision left blank];
 - (j) template IRR.26.01.01 of Chapter 9, specifying information on *market risk*, following the instructions set out in section IR.26.01 of Chapter 10;

- (k) template IRR.26.02.01 of Chapter 9, specifying information on *counterparty default risk*, following the instructions set out in section IR.26.02 of Chapter 10;
 - (l) template IRR.26.03.01 of Chapter 9, specifying information on life *underwriting risk*, following the instructions set out in section IR.26.03 of Chapter 10;
 - (m) template IRR.26.04.01 of Chapter 9, specifying information on health *underwriting risk*, following the instructions set out in section IR.26.04 of Chapter 10;
 - (n) template IRR.26.05.01 of Chapter 9, specifying information on non-life *underwriting risk*, following the instructions set out in section IR.26.05 of Chapter 10;
 - (o) template IRR.26.06.01 of Chapter 9, specifying information on *operational risk*, following the instructions set out in section IR.26.06 of Chapter 10;
 - (p) template IRR.26.07.01 of Chapter 9, specifying information on the simplifications used in the calculation of the notional *SCR*, following the instructions set out in section IR.26.07 of Chapter 10;
 - (q) template IRR.27.01.01 of Chapter 9, specifying information on notional *SCR* (non-life and health catastrophe risk), following the instructions set out in section IR.27.01 of Chapter 10; and
 - (r) template IRR.05.03.01 of Chapter 9, specifying information on life income and expenditure following the instructions set out in section IR.05.03 of Chapter 10.
2. Where a *partial internal model* is used, the templates referred to in points (j) to (q) are only required to be reported in relation to the risks covered by the *standard formula*.
 3. Where a full *internal model* is used, the templates referred to in points (j) to (q) are not required to be reported.

Article 18A: ANNUAL TEMPLATES FOR INDIVIDUAL FIRMS – MATCHING ADJUSTMENT

ASSET AND LIABILITY INFORMATION

Firms with a *matching adjustment permission* must submit to the *PRA* annually templates MALIR 1 - MALIR 7 of Chapter 9, setting out portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios*, in accordance with the instructions set out in section MALIR of Chapter 10.

Article 19: ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR

INDIVIDUAL FIRMS - INTERNAL MODEL ANALYSIS OF CHANGE

Firms using an *internal model* must submit to the *PRA* annually template AoC.01 setting out the analysis of change referred to in Solvency Capital Requirement – Internal Models 13A, including both quantitative information and a supporting qualitative analysis, in accordance with the instructions set out in section AoC.01 of Chapter 10.

Article 20: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INTRA-GROUP

TRANSACTIONS INFORMATION

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1. Firms which are part of a *group* falling within Group Supervision 2.1(4) must submit the information referred to in Group Supervision 16.2 to the *PRA* annually using the following templates (as applicable):

- (a) template IR.36.01.01 of Chapter 9, specifying information on significant *intra-group transactions*, involving equity-type transactions, debt and asset transfer, following the instructions set out in section IR.36.01 of Chapter 10;
- (b) template IR.36.02.01 of Chapter 9, specifying information on significant *intra-group transactions* on derivatives, including the guarantees supporting any derivatives instruments, following the instructions set out in section IR.36.02 of Chapter 10; and
- (c) [Note: Provision left blank];
- (d) template IR.36.04.01 of Chapter 9, specifying information on significant *intra-group transactions* on internal cost sharing, contingent liabilities other than derivatives and off-balance sheet items and other types of *intra-group transactions*, following the instructions set out in section IR.36.04 of Chapter 10.

Article 21: QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - INTRA-GROUP TRANSACTIONS INFORMATION

1. Firms which are part of a *group* falling within Group Supervision 2.1(4) must report:
 - (a) very significant *intra-group transactions* referred to in Group Supervision 16.2(2) as soon as practicable; and
 - (b) significant *intra-group transactions* referred to in Group Supervision 16.2(1) on a regular basis and at least annually,

to the PRA using the relevant templates among templates IR.36.01.01 to IR.36.04.01 of Chapter 9, following the instructions set out in section IR.36.01 to IR.36.04 of Chapter 10.

Article 21A: ADDITIONAL ANNUAL AND QUARTERLY QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS

1. Firms must submit information to the PRA annually using the following templates (as applicable):
 - (a) where the *firm* writes *suretyship* business the effect of which is to improve the credit rating of the underlying *security*, template IR.05.07.01, specifying information on the portfolio of *securities*, following the instructions set out in section IR.05.07 of Chapter 10;
 - (b) where the *firm* manages a *material pooling agreement*, template IR.05.08.01 of Chapter 9, specifying information on their *material pooling agreement*, following the instructions set out in section IR.05.08 of Chapter 10;
 - (c) where the *firm* is an *assessable mutual* which:
 - (i) has called for an additional contribution after 1 January 2006; or
 - (ii) has received approval for *ancillary own funds* as contemplated in Own Funds 2.3(4), template IR.05.09.01 of Chapter 9, specifying information on calls for contributions and the financial performance of the *firm* following the instructions set out in section IR.05.09 of Chapter 10.
2. A *firm* falling within paragraphs 1(b) or 1(c)(i) of this Article that does not have a *Part 4A permission to effect contracts of insurance* is not subject to the obligation to complete the corresponding template.
3. Long-term insurers must submit information to the PRA annually using the following templates (as applicable):
 - (a) where the *firm's* gross *best estimate* liabilities for *long-term insurance business*, other than *reinsurance*, are more than £50 million or the *firm's* gross *written premiums* for *long-term*

- insurance business, other than reinsurance, are more than £10 million, template IR.12.04.01 of Chapter 9, specifying information on *best estimate* assumptions for life insurance risks, following the instructions set out in section IR.12.04 of Chapter 10;
- (b) where the *firm's* net *best estimate* liabilities for *with-profits insurance business* are more than £500 million and the *firm* is a single *with-profits fund*:
- (i) template IR.12.05.01 of Chapter 9, specifying information on value of bonus for *with-profits insurance business*, following the instructions set out in section IR.12.05 of Chapter 10; and
 - (ii) template IR.12.06.01 of Chapter 9, specifying information on liabilities and assets for *with-profits insurance business*, following the instructions set out in section IR.12.06 of Chapter 10.
4. Long-term insurers, where net *best estimate* liabilities for *with-profits insurance business* are more than £500 million for the *firm* as a whole, must submit information to the PRA annually for each ring-fenced fund which is also a *with-profits fund*, and for the remaining part, where this is a *with-profits fund*, using the following templates (as applicable):
- (a) template IRR.12.05.01 of Chapter 9, specifying information on value of bonus for *with-profits insurance business*, following the instructions set out in section IR.12.05 of Chapter 10; and
 - (b) template IRR.12.06.01 of Chapter 9, specifying information on liabilities and assets for *with-profits insurance business*, following the instructions set out in section IR.12.06 of Chapter 10.
5. General insurers must submit information to the PRA annually using the following templates (as applicable):
- (a) where the *firm* carries on *insurance business* and proportional and non-proportional *reinsurance* obligations relating to:
 - (i) *railway rolling stock*;
 - (ii) *aircraft*;
 - (iii) *ships*;
 - (iv) *goods in transit*;
 - (v) *motor vehicle liability*;
 - (vi) *aircraft liability*;
 - (vii) *liability of ships*; or
 - (viii) *general liability*;template IR.18.02.01 of Chapter 9, specifying information on the projection of future cash flows based on liabilities of the non-life business, following the instructions set out in section IR.18.02 of Chapter 10; and
 - (b) where the *firm* carries on *insurance business* relating to:
 - (i) *employer's liability* (including as part of a *mixed commercial package*);
 - (ii) *public and products liability* (including as part of a *mixed commercial package*); or
 - (iii) *professional indemnity*;template IR.19.02.01 of Chapter 9, specifying information on non-life insurance claims, following the instructions set out in section IR.19.02 of Chapter 10.

6. The *Society* must submit information to the *PRA* both on an annual and quarterly basis using template IR.23.05.03 of Chapter 9, specifying information on the *SCR* and *MCR*, following the instructions set out in in section IR.23.05 of Chapter 10.
7. Where a *firm* notifies the *PRA* that any of its submissions of templates under this Article are incorrect, or where the *PRA* notifies a *firm* that any part of the template appears to be inaccurate or incomplete, the *firm* must promptly make any appropriate corrections or adjustments and if necessary re-submit the template (or relevant part of it).

III: REPORTING TEMPLATES FOR GROUPS

Article 22: QUANTITATIVE TEMPLATES FOR THE OPENING INFORMATION FOR GROUPS

[Note: Provision left blank]

Article 23: QUARTERLY QUANTITATIVE TEMPLATES FOR GROUPS

1. *Firms* and, where applicable, *UK holding companies* must submit information to the *PRA* quarterly using the following templates (as applicable):
 - (a) template IR.01.01.05 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.04 of Chapter 9, specifying basic information on the *group* and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10;
 - (c) where, for the calculation of group solvency, the *group* uses *method 1*, either exclusively or in combination with *method 2*, template IR.02.01.02 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;
 - (d) IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;
 - (e) IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;
 - (f) subject to Article 27(1)(b), template IR.06.02.04 of Chapter 9, providing an item-by-item list of assets, following the instructions set out in section IR.06.02 of Chapter 10;
 - (g) subject to Article 27(1)(c)(i), where the ratio of collective investments held by the *group* to total investments is higher than 30%, template IR.06.03.01 of Chapter 9, providing information on the look-through of all collective investments held by the *group*, following the instructions set out in section IR.06.03 of Chapter 10;
 - (h) subject to Article 27(1)(e), template IR.08.01.04 of Chapter 9, providing an item-by-item list of open positions of derivatives, following the instructions set out in section IR.08.01 of Chapter 10; and
 - (i) template IR.23.01.04 of Chapter 9, specifying information on *own funds*, following the instructions set out in section IR.23.01 of Chapter 10.
2. For the purposes of point (g) of paragraph 1, where for the calculation of group solvency *method 1* is used exclusively, the ratio of collective investments held by the *group* to total investments must be determined by the sum of items C0010/R0180, collective investment undertakings included in item C0010/R0220 and collective investment undertakings included in item C0010/R0090 of template IR.02.01.02, divided by the sum of items C0010/R0070 and C0010/R0220 of template IR.02.01.02. Where, for the calculation of group solvency, *method 1* is used in combination with *method 2*, or *method 2* is used exclusively, the ratio must be

calculated in accordance with the first sentence and adjusted in order to capture the required items of all entities included in the scope of template IR.06.02.04 of Chapter 9.

3. Templates set out in point (f) and (g) of paragraph 1 must be submitted at Quarter 4 of the financial year only.

Article 24: SIMPLIFICATIONS ALLOWED ON QUARTERLY REPORTING FOR GROUPS

With regard to the information referred to in point (c) of Article 23(1), quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data. The measurement procedures for the quarterly reporting must be designed to ensure that the resulting information is reliable and complies with the standards laid down in the laws of the *United Kingdom* and that all material information that is relevant for the understanding of the data is reported.

Article 25: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - BASIC INFORMATION AND CONTENT OF SUBMISSION

1. Firms and, where applicable, UK holding companies must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.01.01.04 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.04 of Chapter 9, specifying basic information on the *group* and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10; and
 - (c) where, for the calculation of group solvency, the *group* uses *method 1*, either exclusively or in combination with *method 2*, template IR.01.03.04 of Chapter 9, specifying basic information on the ring-fenced funds and *matching adjustment portfolios*, following the instructions set out in section IR.01.03 of Chapter 10.

Article 26: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - BALANCE SHEET AND OTHER GENERAL INFORMATION

1. Firms and, where applicable, UK holding companies must submit information to the PRA annually using the following templates (as applicable):
 - (a) template IR.02.01.01 of Chapter 9, specifying balance sheet information using both the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the consolidated financial statements, following the instructions set out in section IR.02.01 of Chapter 10;
 - (b) template IR.02.02.01 of Chapter 9, specifying information on assets and liabilities by currency, following the instructions set out in section IR.02.02 of Chapter 10;
 - (c) where any of the following conditions apply, template IR.03.01.04 of Chapter 9, specifying general information on off-balance sheet items, following the instructions set out in section IR.03.01 of Chapter 10:
 - (i) the amount of either of the following values is higher than 2% of total assets as set out in template IR.02.01.01 of Chapter 9:

(C0020/R0010) Value of guarantee/collateral/contingent liabilities - Guarantees provided by *undertakings* within the *group*, including letters of credit plus

(C0020/R0300) Value of guarantee/collateral/contingent liabilities - Total collateral pledged plus (C0010/R0400) Maximum value - Total Contingent liabilities;

(C0020/R0030) Value of guarantee/collateral/contingent liabilities - Guarantees received by undertakings within the group, including letters of credit plus
(C0020/R0200) Value of guarantee/collateral/contingent liabilities - Total collateral held; or

- (ii) any undertaking within the group has provided or received an unlimited guarantee;
 - (d) template IR.03.02.04 of Chapter 9, providing a list of off-balance sheet unlimited guarantees received, following the instructions set out in section IR.03.02 of Chapter 10;
 - (e) template IR.03.03.04 of Chapter 9, providing a list of off-balance sheet unlimited guarantees provided, following the instructions set out in section IR.03.03 of Chapter 10;
 - (f) template IR.05.02.01 of Chapter 9, specifying information on premiums, claims and expenses by country applying the valuation and recognition principles used in the consolidated financial statements, following the instructions set out in section IR.05.02 of Chapter 10;
 - (g) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10; and
 - (h) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10.
2. The templates referred to in points (a) and (b) of paragraph 1 must only be submitted by firms and, where applicable, UK holding companies which, for the calculation of group solvency, use method 1, either exclusively or in combination with method 2.

Article 27: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - INVESTMENTS INFORMATION

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1. Firms and, where applicable, UK holding companies must submit information to the PRA annually using the following templates (as applicable):
- (a) [Note: Provision left blank];
 - (b) where the group is exempted from reporting template IR.06.02.04 in relation to the last quarter of the group's financial year in accordance with a direction given by the PRA under section 138A of FSMA, template IR.06.02.04 of Chapter 9, providing an item-by-item list of assets, following the instructions set out in section IR.06.02 of Chapter 10;
 - (c) where the group:
 - (i) is exempted from reporting template IR.06.03.01 of Chapter 9 in relation to the last quarter of the group's financial year in accordance with a direction given by the PRA under section 138A of FSMA; or
 - (ii) has not reported it quarterly because the ratio of collective investments held by the group to total investments (as referred to in Article 23(1)(g) of this Chapter) is not higher than 30%.template IR.06.03.01 of Chapter 9, providing information on the look-through of all collective investments held by the group, following the instructions set out in section IR.06.03 of Chapter 10;
 - (d) [Note: Provision left blank];
 - (e) where the group is exempted from reporting template IR.08.01.04 in relation to the last quarter of the group's financial year in accordance with a direction given by the PRA under section 138A of FSMA, template IR.08.01.04 of Chapter 9, providing an item-by-item list of

open positions of derivatives, following the instructions set out in section IR.08.01 of Chapter 10;

- (f) [Note: Provision left blank];
- (g) template IR.09.01.04 of Chapter 9, specifying information on income, gains and losses in the reporting period by asset category, following the instructions set out in section IR.09.01 of Chapter 10;
- (h) where the ratio of the value of underlying securities, on and off-balance sheet, involved in lending or repurchase agreements, for contracts with maturity dates falling after the reporting reference date, to the total investments is higher than 5%, template IR.10.01.04 of Chapter 9, providing an item-by-item list of securities lending and repurchase agreements on and off-balance sheet, following the instructions set out in section IR.10.01 of Chapter 10; and
- (i) where the ratio of the value of assets held as collateral to total balance sheet as reported in items C0010/R0500 of template IR.02.01.01 exceeds 10%, template IR.11.01.04 of Chapter 9, providing an item-by-item list of assets held as collateral, consisting of all types of off-balance sheet asset categories held as collateral, following the instructions set out in section IR.11.01 of Chapter 10.

2. [Note: Provision left blank]

3. For the purposes of point (h) of paragraph 1:

- (a) where for the calculation of group solvency *method 1* is used exclusively, the ratio must be determined by the sum of the underlying securities, on and off-balance sheet, involved in lending or repurchase agreements, for contracts with maturity dates falling after the reporting reference date, divided by the sum of items C0010/R0070 and C0010/R0220 of template IR.02.01.01 of Chapter 9; and
- (b) where, for the calculation of group solvency, *method 1* is used in combination with *method 2*, or *method 2* is used exclusively, the ratio must be calculated in accordance with the first sentence and adjusted in order to capture the required items of all entities included in the scope of template IR.06.02.04 of Chapter 9.

Article 28: ANNUAL QUANTITATIVE REPORTING TEMPLATES FOR GROUPS - VARIABLE ANNUITIES INFORMATION

[Note: Provision left blank]

Article 29: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - LONG TERM GUARANTEES INFORMATION

Firms and, where applicable, *UK holding companies* must submit information to the *PRA* annually using template IR.22.01.04 of Chapter 9 specifying information on the impact of the long term guarantees and transitional measures, following the instructions set out in section IR.22.01 of Chapter 10.

Article 30: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - OWN FUNDS INFORMATION

1. *Firms* and, where applicable, *UK holding companies* must submit information to the *PRA* annually using the following templates (as applicable):

- (a) template IR.23.01.04 of Chapter 9, specifying information on *own funds*, following the instructions set out in section IR.23.01 of Chapter 10;

- (b) template IR.23.02.04 of Chapter 9, providing detailed information on *own funds* by tiers, following the instructions set out in section IR.23.02 of Chapter 10;
 - (c) template IR.23.03.04 of Chapter 9, specifying information on annual movements on *own funds*, following the instructions set out in section IR.23.03 of Chapter 10; and
 - (d) template IR.23.04.04 of Chapter 9, providing a list of items on *own funds*, following the instructions set out in section IR.23.04 of Chapter 10.
2. The templates referred to in points (b) and (c) of paragraph 1 must only be submitted by *firms* and, where applicable, *UK holding companies* which, for the calculation of group solvency, use *method 1*, either exclusively or in combination with *method 2*.

Article 31: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - SOLVENCY CAPITAL REQUIREMENT INFORMATION

1. *Firms* and, where applicable, *UK holding companies* which for the calculation of group solvency use *method 1*, either exclusively or in combination with *method 2*, must submit information to the *PRA* annually using the following templates (as applicable):
- (a) template IR.25.04.04 of Chapter 9, specifying information in relation to the calculation of the *group SCR*, following the instructions set out in section IR.25.04 of Chapter 10; and
 - (b) where the *group* uses one or more *internal models* or a *partial internal model* for the calculation of the *group SCR*, template IR.25.05.01 of Chapter 9, specifying information in relation to the calculation of the *group SCR*, following the instructions set out in section IR.25.05 of Chapter 10.

Article 32: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - REINSURERS AND SPECIAL PURPOSE VEHICLES INFORMATION

1. *Firms* and, where applicable, *UK holding companies* must submit information to the *PRA* annually using the following templates (as applicable):
- (a) template IR.31.01.04 of Chapter 9, specifying information on outwards *reinsurance* balance sheet exposures, following the instructions set out in section IR.31.01 of Chapter 10; and
 - (b) [Note: Provision left blank];
 - (c) template IR.30.05.01 of Chapter 9, specifying *reinsurer* and collateral provider entity information, following the instructions set out in section IR.30.05 of Chapter 10.

Article 33: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - GROUP SPECIFIC INFORMATION

1. *Firms* and, where applicable, *UK holding companies* must submit information to the *PRA* annually using the following templates (as applicable):
- (a) template IR.32.01.04 of Chapter 9, specifying information on the *insurance undertakings* and *reinsurance undertakings* in the scope of the *group*, following the instructions set out in section IR.32.01 of Chapter 10;
 - (b) template IR.33.01.04 of Chapter 9, specifying information on requirements of *insurance undertakings* and *reinsurance undertakings* in the scope of the *group*, following the instructions set out in section IR.33.01 of Chapter 10;
 - (c) template IR.34.01.04 of Chapter 9, specifying information on financial *undertakings* other than *insurance undertakings* and *reinsurance undertakings*, and on *non-regulated*

undertakings carrying out financial activities, following the instructions set out in section IR.34.01 of Chapter 10;

- (d) for groups with any third country insurance undertakings or third country reinsurance undertakings, template IR.35.01.04 of Chapter 9, specifying information on technical provisions (or equivalent) of the third country insurance undertakings and third country reinsurance undertakings within the group, following the instructions set out in section IR.35.01 of Chapter 10;
- (e) template IR.36.01.01 of Chapter 9, specifying information on significant intra-group transactions involving equity-type transactions, debt and asset transfer, following the instructions set out in section IR.36.01 of Chapter 10;
- (f) template IR.36.02.01 of Chapter 9, specifying information on significant intra-group transactions on derivatives, including the guarantees supporting any derivatives instruments, following the instructions set out in section IR.36.02 of Chapter 10;
- (g) [Note: Provision left blank]; and
- (h) template IR.36.04.01 of Chapter 9, specifying information on significant intra-group transactions on internal cost sharing, contingent liabilities (other than derivatives) and off-balance sheet items and other types of intra-group transactions, following the instructions set out in section IR.36.04 of Chapter 10.

Article 34: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - RING-FENCED FUNDS-AND REMAINING PART INFORMATION

1. In this Article 34, an 'unsupported ring-fenced fund' is a ring-fenced fund whose notional SCR is entirely covered by assets allocated to that fund and a 'supported ring-fenced fund' is a ring-fenced fund whose notional SCR is not entirely covered by assets allocated to that fund.
2. Firms and, where applicable, UK holding companies which for the calculation of group solvency use method 1, either exclusively or in combination with method 2, must submit to the PRA annually information in relation to unsupported ring-fenced funds and the remaining part (including any embedded matching adjustment portfolios and supported ring-fenced funds), taking into account only those risks in scope of the method 1 calculation and using the following templates:
 - (a) template IRR.01.01.04 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IRR.02.01.01 of Chapter 9, to be submitted separately for each of the following (as applicable):
 - (i) the balance sheet information for all unsupported ring-fenced funds in the group (including any embedded matching adjustment portfolios); and
 - (ii) the balance sheet information for the remaining part (including any embedded matching adjustment portfolios and supported ring-fenced funds),
using both the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the consolidated financial statements, and following the instructions set out in section IR.02.01 of Chapter 10; and
 - (c) template IRR.25.04.01 of Chapter 9, to be submitted separately for each of the following (as applicable):
 - (i) the notional SCR calculation covering all unsupported ring-fenced funds in the group (including any embedded matching adjustment portfolios); and

- (ii) the notional SCR calculation covering the remaining part (including any embedded matching adjustment portfolios and supported ring-fenced funds);

following the instructions set out in section IR.25.04 of Chapter 10.

Article 35: ANNUAL QUANTITATIVE TEMPLATE AND SUPPORTING ANALYSIS FOR GROUPS - INTERNAL MODEL ANALYSIS OF CHANGE

Firms and, where applicable, UK holding companies reporting information on a group which includes more than one firm using an internal model must submit to the PRA annually template AoC.01 setting out the analysis of change referred to in Solvency Capital Requirement – Internal Models 13A, including both quantitative information and a supporting qualitative analysis, in accordance with the instructions set out in section AoC.01 of Chapter 10.

Article 36: QUANTITATIVE TEMPLATES FOR GROUPS - INTRA-GROUP TRANSACTIONS AND RISK CONCENTRATIONS

1. Firms and, where applicable, UK holding companies must report to the PRA significant and very significant intra-group transactions referred to in Group Supervision 16.2(1) and (2) using, as appropriate, templates IR.36.01.01, IR.36.02.01 and IR.36.04.01 of Chapter 9, following the instructions set out in section IR.36.01 to IR.36.04 of Chapter 10.

IV. REPORTING TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS

Article 37: QUARTERLY QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS

1. Third country branch undertakings must submit information to the PRA quarterly using the following templates (as applicable) in respect of the operations of the third country branch (other than a third country pure reinsurance branch):
 - (a) template IR.01.01.08 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.07 of Chapter 9, specifying basic information on the third country branch and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10;
 - (c) template IR.02.01.08 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;
 - (d) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;
 - (e) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;
 - (f) template IR.12.01.02 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10; and
 - (g) template IR.17.01.02 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life), for each line of business, following the instructions set out in section IR.17.01 of Chapter 10.
2. With regard to the information referred to in point (c) of Article 37(1), quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data. The measurement procedures for the quarterly reporting must be

designed to ensure that the resulting information is reliable and complies with the standards laid down in the laws of the *United Kingdom* and that all material information that is relevant for the understanding of the data is reported.

3. When submitting the information referred to in points (f) and (g) of Article 37(1), *third country branch undertakings* may apply simplified methods in accordance with the Technical Provisions and Technical Provisions – Further Requirements Parts of the *PRA Rulebook* in the calculation of the provisions referred to in Third Country Branches 6.1.

**Article 38: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH
UNDERTAKINGS - BASIC INFORMATION AND CONTENT OF SUBMISSION**

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of the *third country branch* (other than a *third country pure reinsurance branch*):
 - (a) template IR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IR.01.02.07 of Chapter 9, specifying basic information on the *third country branch* and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10; and
 - (c) template IR.01.03.01 of Chapter 9, specifying basic information on the ring-fenced funds and *matching adjustment portfolios*, following the instructions set out in section IR.01.03 of Chapter 10.

**Article 39: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH
UNDERTAKINGS - BALANCE SHEET AND OTHER GENERAL INFORMATION**

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of the *third country branch* (other than a *third country pure reinsurance branch*):
 - (a) template IR.02.01.07 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation according to the branch management accounts value for the branch operations, following the instructions set out in section IR.02.01 of Chapter 10;
 - (b) template IR.02.03.07 of Chapter 9, specifying additional branch balance sheet information, following the instructions set out in section IR.02.03 of Chapter 10;
 - (c) template IR.05.02.01 of Chapter 9, specifying information on *premiums*, claims and expenses by country, applying the valuations and recognition principles used in branch management accounts for the branch operations, following the instructions set out in section IR.05.02 of Chapter 10;
 - (d) template IR.05.03.01 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10; and
 - (e) template IR.05.04.07 of Chapter 9, specifying information on non-life income, expenditure and business model analysis, following the instructions set out in section IR.05.04 of Chapter 10.

Article 40: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH
UNDERTAKINGS - BRANCH PROVISIONS INFORMATION

1. Third country branch undertakings must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of the *third country branch* (other than a *third country pure reinsurance branch*):
 - (a) template IR.12.01.01 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10;
 - (b) template IR.12.03.01 of Chapter 9, specifying information on life *branch best estimate* liabilities by country, following the instructions set out in section IR.12.03 of Chapter 10;
 - (c) template IR.14.01.01 of Chapter 9, specifying information on life obligations analysis, including life insurance and *reinsurance contracts* and annuities stemming from non-life contracts, by product issued by the *third country branch*, following the instructions set out in section IR.14.01 of Chapter 10;
 - (d) template IR.16.01.01 of Chapter 9, specifying information on annuities stemming from non-life insurance obligations issued by the *third country branch* under direct insurance business, regarding all *lines of business* originating annuities and additionally by currency, following the instructions set out in section IR.16.01 of Chapter 10;
 - (e) template IR.16.02.01 of Chapter 9, specifying information on the projection of *branch best estimate* future cash flows of annuities stemming from non-life business, following the instructions set out in section IR.16.02 of Chapter 10;
 - (f) template IR.17.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life), by *line of business*, following the instructions set out in section IR.17.01 of Chapter 10;
 - (g) template IR.17.03.01 of Chapter 9, specifying information on non-life *branch best estimate* liabilities by country, following the instructions set out in section IR.17.03 of Chapter 10;
 - (h) template IR.18.01.01 of Chapter 9, specifying information on the projection of future cash flows based on the *branch best estimate* of the non-life business, following the instructions set out in section IR.18.01 of Chapter 10;
 - (i) template IR.19.01.01 of Chapter 9, specifying information on non-life insurance claims in the format of development triangles, for the total of each non-life *line of business* and additionally by currency, following the instructions set out in section IR.19.01 of Chapter 10;
 - (j) template IR.20.01.01 of Chapter 9, specifying information on the development of the distribution of the claims incurred at the end of the financial year for each *line of business*, following the instructions set out in section IR.20.01 of Chapter 10;
 - (k) template IR.21.02.01 of Chapter 9, specifying information on non-life *underwriting risks*, following the instructions set out in section IR.21.02 of Chapter 10; and
 - (l) template IR.21.04.01 of Chapter 9, specifying information on cyber *underwriting risk*, following instructions set out in section IR.21.04 of Chapter 10.

**Article 41: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH
UNDERTAKINGS - REINSURANCE AND SPECIAL PURPOSE VEHICLES
INFORMATION**

1. Third country branch undertakings must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of the third country branch (other than a third country pure reinsurance branch):
 - (a) template IR.30.03.01 of Chapter 9, specifying information on the outwards reinsurance contracts in the next reporting year covering information on outwards reinsurance facultative and treaty arrangements the period of validity of which includes or overlaps with the next reporting year, following the instructions set out in section IR.30.03 of Chapter 10;
 - (b) template IR.30.04.01 of Chapter 9, specifying information on reinsurer participations on the outwards reinsurance contracts in the next reporting year covering information on outwards reinsurance facultative and treaty arrangements the period of validity of which includes or overlaps with the next reporting year, following the instructions set out in section IR.30.04 of Chapter 10;
 - (c) template IR.30.05.01 of Chapter 9, specifying reinsurer and collateral provider entity information, following the instructions set out in section IR.30.05 of Chapter 10; and
 - (d) template IR.31.01.01 of Chapter 9, specifying information on outwards reinsurance branch balance sheet exposures, following the instructions set out in section IR.31.01 of Chapter 10.

**Article 42: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH
UNDERTAKINGS - RING-FENCED FUNDS, MATCHING ADJUSTMENT
PORTFOLIOS AND REMAINING PART INFORMATION**

1. Third country branch undertakings must submit information in relation to each ring-fenced fund, each matching adjustment portfolio and the remaining part to the PRA annually using the following templates (as applicable) in respect of the operations of the third country branch (other than a third country pure reinsurance branch):
 - (a) template IRR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IRR.02.01.07 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation according to the branch management accounts value for the branch operations, following the instructions set out in section IR.02.01 of Chapter 10;
 - (c) template IRR.12.01.01 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10; and
 - (d) template IRR.17.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life) for each line of business, following the instructions set out in section IR.17.01 of Chapter 10.

**Article 42A: ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS -
MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

Third country branch undertakings with a matching adjustment permission must submit to the PRA annually templates MALIR 1 - MALIR 7 of Chapter 9, setting out, in respect of the operations of each third country branch (other than a third country pure reinsurance branch), portfolio metrics and detailed information on the assets and liabilities held in their matching adjustment portfolios in accordance with the instructions set out in section MALIR of Chapter 10.

**Article 43: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE
REINSURANCE BRANCHES - BASIC INFORMATION AND CONTENT OF
SUBMISSION**

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1. *Third country branch undertakings must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of a third country pure reinsurance branch:*
 - (a) *template IR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10; and*
 - (b) *template IR.01.02.07 of Chapter 9, specifying basic information on the third country branch and the content of the reporting in general, following the instructions set out in section IR.01.02 of Chapter 10.*

**Article 44: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE
REINSURANCE BRANCHES - BALANCE SHEET AND OTHER GENERAL
INFORMATION**

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1. *Third country branch undertakings must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of a third country pure reinsurance branch:*
 - (a) *template IR.02.01.07 of Chapter 9, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation according to the branch management accounts value for the branch operations, following the instructions set out in section IR.02.01 of Chapter 10;*
 - (b) *template IR.02.03.07 of Chapter 9, specifying additional branch balance sheet information, following the instructions set out in section IR.02.03 of Chapter 10;*
 - (c) *template IR.05.03.01 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10; and*
 - (d) *template IR.05.04.07 of Chapter 9, specifying information on non-life income, expenditure and business model analysis, following the instructions set out in section IR.05.04 of Chapter 10.*

**Article 45: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE
REINSURANCE BRANCHES - BRANCH PROVISIONS INFORMATION**

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1. *Third country branch undertakings must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of a third country pure reinsurance branch:*

- (a) template IR.12.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10;
- (b) template IR.14.01.01 of Chapter 9, specifying information on life obligations analysis, including life insurance and *reinsurance contracts* and annuities stemming from non-life contracts, by product issued by the *third country branch*, following the instructions set out in section IR.14.01 of Chapter 10;
- (c) template IR.17.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life) by *line of business*, following the instructions set out in section IR.17.01 of Chapter 10; and
- (d) template IR.21.04.01 of Chapter 9, specifying information on cyber *underwriting risk*, following instructions set out in section IR.21.04 of Chapter 10.

Article 46: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - REINSURANCE AND SPECIAL PURPOSE VEHICLES INFORMATION

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of a *third country pure reinsurance branch*:
 - (a) template IR.30.05.01 of Chapter 9, specifying *reinsurer* and collateral provider entity information, following the instructions set out in section IR.30.05 of Chapter 10; and
 - (b) template IR.31.01.01 of Chapter 9, specifying information on outwards *reinsurance* branch balance sheet exposures, following the instructions set out in section IR.31.01 of Chapter 10.

Article 47: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

1. *Third country branch undertakings* must submit information in relation to each ring-fenced fund, each *matching adjustment portfolio* and the remaining part to the *PRA* annually using the following templates (as applicable) in respect of the operations of a *third country pure reinsurance branch*:
 - (a) template IRR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section IR.01.01 of Chapter 10;
 - (b) template IRR.12.01.01 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life), following the instructions set out in section IR.12.01 of Chapter 10; and
 - (c) template IRR.17.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life) for each *line of business*, following the instructions set out in section IR.17.01 of Chapter 10.

Article 47A: ANNUAL TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION

Third country branch undertakings with a *matching adjustment permission* must submit to the *PRA* annually templates MALIR 1 - MALIR 7 of Chapter 9, setting out, in respect of the operations of each *third country pure reinsurance branch*, portfolio metrics and detailed information on the assets and

liabilities held in their *matching adjustment portfolios* in accordance with the instructions set out in section MALIR of Chapter 10.

Article 48: ANNUAL LEGAL ENTITY QUANTITATIVE TEMPLATE IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS

Third country branch undertakings must submit to the PRA annually template IR.01.04.07 in Chapter 9, specifying information regarding the financial position, including solvency, of the *third country branch undertaking*, following the instructions set out in section IR.01.04 of Chapter 10.

Article 49: TRIENNIAL RESOLUTION REPORT IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS

1. *Third country branch undertakings* must submit a resolution report to the PRA every three years containing an analysis, supported by a legal opinion, of the winding-up regime applicable to the *third country branch undertaking*, including a description of the applicable laws in relation to winding-up in the relevant jurisdiction and an analysis of the priority given to *policyholders* of the *third country branch* and of how the assets of the *third country branch undertaking* would be distributed to the *policyholders* of the branch on a winding-up.
2. Where there is any significant change in the winding-up regime applicable to the *third country branch undertaking*, the *third-country branch undertaking* must submit an update to the resolution report referred to in paragraph 1 of this Article as soon as possible following the occurrence of the significant change.

Article 50: ADDITIONAL ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY BRANCH UNDERTAKINGS

1. *Third country branch undertakings* must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of the *third country branch*:
 - (a) where the *third country branch undertaking* writes *suretyship* business the effect of which is to improve the credit rating of the underlying *security*, template IR.05.07.01 of Chapter 9, specifying information on the portfolio of *securities*, following the instructions set out in section IR.05.07 of Chapter 10;
 - (b) where the *third country branch undertaking* manages a *material pooling agreement*, template IR.05.08.01 of Chapter 9, specifying information on the *material pooling agreements*, following the instructions set out in section IR.05.08 of Chapter 10; and
 - (c) where the *third country branch undertaking* is an *assessable mutual* which has called for an additional contribution after 1 January 2006, template IR.05.09.01 of Chapter 9, specifying information on calls for contributions and the financial performance of the *third country branch*, following the instructions set out in section IR.05.09 of Chapter 10.
2. A *third country branch undertaking* falling within paragraphs 1(b) or 1(c) of this Article that does not have a *Part 4A permission to effect contracts of insurance* is not subject to the obligation to complete the corresponding template.
3. *Third country branch undertakings* which are *long-term insurers*, where the net branch best estimate liabilities for *with-profits insurance business* are more than £500 million and the *third country branch* is a single *with-profits fund*, must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of the *third country branch*:
 - (a) template IR.12.05.01 of Chapter 9, specifying information on value of bonus for *with-profits insurance business*, following the instructions set out in section IR.12.05 of Chapter 10; and

- (b) template IR.12.06.01 of Chapter 9, specifying information on liabilities and assets for *with-profits insurance business*, following the instructions set out in section IR.12.06 of Chapter 10.
4. Third country branch undertakings which are *general insurers* must submit information to the PRA annually using the following templates (as applicable) in respect of the operations of the third country branch:
- (a) where the *third country branch undertaking* carries on *insurance business* and proportional and non-proportional *reinsurance* obligations relating to:
- (i) *railway rolling stock*;
 - (ii) *aircraft*;
 - (iii) *ships*;
 - (iv) *goods in transit*;
 - (v) *motor vehicle liability*;
 - (vi) *aircraft liability*;
 - (vii) *liability of ships*; or
 - (viii) *general liability*.
- template IR.18.02.01 of Chapter 9, specifying information on the projection of future cash flows based on liabilities of the non-life business, following the instructions set out in section IR.18.02 of Chapter 10; and
- (b) where the *third country branch undertaking* carries on *insurance business* relating to:
- (i) *employer's liability* (including as part of a *mixed commercial package*);
 - (ii) *public and products liability* (including as part of a *mixed commercial package*); or
 - (iii) *professional indemnity*.
- template IR.19.02.01 of Chapter 9, specifying information on non-life insurance claims, following the instructions set out in section IR.19.02 of Chapter 10.
5. Where a *third country branch undertaking* notifies the PRA that any of its submissions of templates under this Article are incorrect, or where the PRA notifies a *third country branch undertaking* that any part of the template appears to be inaccurate or incomplete, the *third country branch undertaking* must promptly make any appropriate corrections or adjustments and if necessary re-submit the template (or relevant part of it).

3 PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT

...

- 3.2 The information which a *firm* discloses in its *SFCR* must:
- (1) follow the structure set out in in Article 1A of Chapter 3A;
 - (2) include the information referred to in 3.3 to 3.7C and 3.10; and
 - (3) include the information required in 2.3 and must comply with the principles in 2.4.
- ...
- 3.3 A *firm's SFCR* must contain the following information, either in full or by way of reference to equivalent information, both in nature and scope, disclosed publicly under other legal or regulatory requirements:

...

- (5) a description of the capital management of the *firm*, including at least the following:

...

- (c) information showing and explaining the main differences between the underlying assumptions of the *standard formula* and the underlying assumptions of any *internal model* for which the *firm* has received ~~*internal model approval*~~*internal model permission*;
- (d) the amount of any non-compliance with the *MCR* or any significant non-compliance with the *SCR* during the reporting period, even if subsequently resolved, with an explanation of the origin of that non-compliance and its consequences, as well as any remedial measures taken in respect of that non-compliance; ~~and~~
- (6) a clear and concise summary understandable to *policyholders*. The summary of the report shall highlight any material changes to the matters described in 3.3(1), (2), (4), and (5) over the reporting period.

...

3.3A For the purposes of 3.3(1) the *SFCR* must include the following information regarding the business and performance of the *firm*:

- (1) the *firm*'s name and legal form;
- (2) the *PRA*'s contact details, and where applicable, the name and contact details of the *group supervisor* of the *group* to which the *firm* belongs;
- (3) the name and contact details of the external auditor of the *firm*;
- (4) a description of any *controller* of the *firm*;
- (5) where the *firm* belongs to a *group*, details of the *firm*'s position within the legal structure of the *group*;
- (6) the *firm*'s material *lines of business* and material geographical areas where it carries out business;
- (7) any significant business or other events that have occurred over the reporting period that have had a material impact on the *firm*;
- (8) qualitative and quantitative information on the *firm*'s underwriting performance:
 - (a) at an aggregate level and by material *line of business* and material geographical areas where it carries out business over the reporting period; and
 - (b) together with a comparison of the information with that reported on the previous reporting period, as shown in the *firm*'s financial statements;
- (9) qualitative and quantitative information regarding the performance of the investments of the *firm* over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that *firm*'s financial statements:
 - (a) information on income and expenses arising from investments by asset class and, where necessary for a proper understanding of the income and expenses, the components of such income and expenses;
 - (b) information about any gains and losses recognised directly in equity; and
 - (c) information about any investments in securitisation;

- (10) a description of other material income and expenses of the *firm* incurred over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that *firm*'s financial statements; and
- (11) a separate section on any other material information regarding the business and performance of the *firm*.

3.3B For the purposes of 3.3(2), the *SFCR* must include the following:

- (1) information regarding the system of governance of the *firm*:
 - (a) the structure of the *firm*'s *management body* and *governing body*, providing a description of their main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of *key functions*;
 - (b) any material changes in the system of governance that have taken place over the reporting period;
 - (c) information on the *remuneration* policy and practices regarding the *management body* and *governing body*, and, unless otherwise stated, *employees*, including:
 - (i) principles of the *remuneration* policy, with an explanation of the relative importance of the fixed and variable components of *remuneration*;
 - (ii) information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of *remuneration* is based; and
 - (iii) a description of the main characteristics of supplementary pension or early retirement schemes for the members of the *management body* and *governing body* and other *key function* holders;
 - (d) information about material transactions during the reporting period with shareholders, with *persons* who exercise a significant influence on the *firm*, and with members of the *management body* and *governing body*;
- (2) information regarding the fitness and propriety of *persons* who perform *key functions* or *certification functions* for the *firm*:
 - (a) a description of the *firm*'s specific requirements concerning skills, knowledge and expertise applicable to the *persons* who effectively run the *firm* or have other *key functions*; and
 - (b) a description of the *firm*'s process for assessing the fitness and the propriety of the *persons* who effectively run the *firm* or have other *key functions*;
- (3) information regarding the risk management system of the *firm*:
 - (a) a description of the *firm*'s risk management system comprising strategies, processes and reporting procedures, and how it is able to effectively identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which the *firm* is or could be exposed; and
 - (b) a description of how the risk management system, including the risk management *function*, are implemented and integrated into the organisational structure and decision-making processes of the *firm*;

- (4) information regarding the process the *firm* has adopted to fulfil its obligation to conduct an ORSA:
 - (a) a description of the process undertaken by the *firm* to fulfil its obligation to conduct an ORSA as part of its risk management system including how the ORSA is integrated into the organisational structure and decision-making processes of the *firm*;
 - (b) a statement detailing how often the ORSA is reviewed and approved by the *firm*'s governing body; and
 - (c) a statement explaining how the *firm* has determined its own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other;
- (5) information regarding the *internal controls* of the *firm*:
 - (a) a description of the *firm*'s *internal controls*; and
 - (b) a description of how the compliance *function* is implemented;
- (6) information regarding the internal audit *function* of the *firm*:
 - (a) a description of how the *firm*'s internal audit *function* is implemented; and
 - (b) a description of how the *firm*'s internal audit *function* maintains its independence and objectivity from the activities it reviews;
- (7) a description of how the actuarial *function* of the *firm* is implemented;
- (8) a description of the outsourcing policy of the *firm*, the *firm*'s outsourcing of any critical or important operational *functions* or activities, and the jurisdiction in which the service providers of such *functions* or activities are located;
- (9) an assessment of the adequacy of the system of governance of the *firm* to the nature, scale and complexity of the risks inherent in its business; and
- (10) any other material information, in a separate section, regarding the system of governance of the *firm*.

3.3C For the purposes of 3.3(2), in respect of a *firm*'s risk profile, and 3.3(3), the *SFCR* must include the following:

- (1) Qualitative and quantitative information regarding the risk profile of the *firm*, in accordance with 3.3C(2) to 3.3C(7), separately for the following categories of risk:
 - (a) *underwriting risk*;
 - (b) *market risk*;
 - (c) *credit risk*;
 - (d) *liquidity risk*;
 - (e) *operational risk*;
 - (f) other material risks;
- (2) Information regarding the risk exposure of the *firm*, including the exposure arising from off-balance sheet positions and the transfer of risk to *special purpose vehicles*:
 - (a) a description of the measures used to assess these risks within the *firm*, including any material changes over the reporting period;

- (b) a description of the material risks that *the firm* is exposed to, including any material changes over the reporting period; and
- (c) a description of how assets have been invested in accordance with Investments 2 to 6 so that the risks mentioned in that Part, and their proper management, are addressed in that description;
- (3) A description of the material risk concentrations to which the *firm* is exposed;
- (4) A description of the techniques used for mitigating risks, and the processes for monitoring the continued effectiveness of these *risk-mitigation techniques*.
- (5) With regard to risk sensitivity, a description of the methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks and events.
- (6) Any other material information, in a separate section, regarding their risk profile of the *firm*.

...

3.4 For the purposes of 3.3(4), where a *firm* applies:

- (1) a *matching adjustment* in accordance with ~~Technical Provisions 6~~ the Matching Adjustment Part, the ~~firm~~ *firm* must include in the description:
 - (a) a description of the *matching adjustment* and of the *relevant portfolio of insurance and reinsurance obligations and relevant portfolio of assets*~~portfolio of obligations and assigned assets~~ to which the *matching adjustment* is applied; ~~and~~
 - (b) a quantification of the impact of a change to zero of the *matching adjustment* on the *firm's* financial position; including on the amount of its *technical provisions*, the *SCR*, the *MCR*, *basic own funds* and *eligible own funds* to cover the *MCR* and the *SCR*; and
 - (c) the disclosure in respect of the *firm's* attestation required by Chapter 11 of the Matching Adjustment Part.
- (2) a *volatility adjustment* in accordance with Technical Provisions 8, the *firm* must include in the description:
 - (a) a statement on whether the *volatility adjustment* referred to in Technical Provisions 8 is used by the *firm*;
 - (b) quantification of the impact of a change to zero of the *volatility adjustment* on the *firm's* financial position, including on the amount of its *technical provisions*, the *SCR*, the *MCR*, *basic own funds* and *eligible own funds* to cover the *MCR* and the *SCR*.

3.4A For the purposes of 3.3(4), the *SFCR* must include the following:

- (1) information regarding the valuation of the assets of the *firm* for solvency purposes:
 - (a) separately for each material class of assets, the value of the assets, as well as a description of the bases, methods and main assumptions used for valuation for solvency purposes; and
 - (b) separately for each material class of assets, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by the *firm* for the valuation for solvency purposes and those used for its valuation in financial statements;
- (2) information regarding the valuation of the *technical provisions* of the *firm* for solvency purposes;

- (a) separately for each material *line of business*, the value of *technical provisions*, including the amount of the *best estimate* and the *risk margin*, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes;
- (b) a description of the level of uncertainty associated with the value of *technical provisions*;
- (c) separately for each material *line of business*, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by the *firm* for the valuation for solvency purposes, and those used for their valuation in financial statements;
- (d) a statement on:
 - (i) whether the *relevant risk-free interest rate-term structure* is applied and a quantification of the impact of not applying the *risk-free interest rate transitional measure* on the *firm's* financial position, including on the amount of *technical provisions*, the *SCR*, the *MCR*, the *basic own funds* and the amounts of *eligible own funds* to cover the *MCR* and the *SCR*; or
 - (ii) whether *TMTP* is applied and a quantification of the impact of not applying *TMTP* on the *firm's* financial position, including on the amount of *technical provisions*, the *SCR*, *MCR*, the *basic own funds* and the amounts of *eligible own funds* to cover the *MCR* and the *SCR*;
- (e) a description of the following:
 - (i) the recoverables from *reinsurance contracts* and *special purpose vehicles*; and
 - (ii) any material changes in the relevant assumptions made in the calculation of *technical provisions* compared to the previous reporting period.
- (3) information regarding the valuation of the other liabilities of the *firm* for solvency purposes:
 - (a) separately for each material class of other liabilities the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes; and
 - (b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation bases, methods and main assumptions used by the *firm* for the valuation for solvency purposes and those used for their valuation in financial statements.
- (4) information on the areas set out in Conditions Governing Business 11A in complying with the disclosure requirements of the *firm* as laid down in 3.4A(1) and 3.4A(3).
- (5) any other material information, in a separate section, regarding the valuation of assets and liabilities for solvency purposes.

3.5 In addition to the requirements of 3.5A below, the disclosure required by 3.3(5)(a) must include the following:

- (1) an analysis of any significant change in the structure, amount and quality of *own funds* of the *firm* as compared to the previous reporting period of the *firm*;
- (2) an explanation of any major differences in relation to the value of elements of *own funds* items in the financial statements of the *firm*; and
- (3) a brief description of the capital transferability of the *own funds* of the *firm*.

...

3.5A For the purposes of 3.3(5)(a), the SFCR must include the following information regarding the *own funds* of the *firm*:

- (1) information on the objectives, policies and processes employed by the *firm* for managing its *own funds*, including information on the time horizon used for business planning and on any material changes over the reporting period;
- (2) separately for each tier, information on the structure, amount and quality of *own funds* at the end of the reporting period and at the end of the previous reporting period, including an analysis of the significant changes in each tier over the reporting period;
- (3) the *eligible own funds* to cover the *SCR*, classified by tiers in accordance with Own Funds 3;
- (4) the *eligible own funds* to cover the *MCR*, classified by tiers in accordance with Own Funds 3;
- (5) a quantitative and qualitative explanation of any material differences between *equity share capital* as shown in the *firm's* financial statements and the excess of assets over liabilities as calculated for solvency purposes;
- (6) for each *basic own fund* item that is subject to the transitional arrangements referred to in Transitional Measures 4.1 and 4.2, a description of the nature of the item and its amount;
- (7) for each material item of *ancillary own funds*, a description of the item, the amount of the *ancillary own fund* item and, where a method by which to determine the amount of the *ancillary own fund* item has been permitted in accordance with the *firm's ancillary own fund permission*, that method as well as the nature and the names of the *counterparty* or group of *counterparties* for the items referred to in Own Funds 2.3(1) to (4);
- (8) a description of any item deducted from *own funds* and a brief description of any significant restriction affecting the availability and transferability of *own funds* within the *firm*;
- (9) information regarding deferred taxes that shall contain as a minimum all of the following:
 - (a) a description of the calculated amount of deferred tax assets without assessing their probable utilisation, and the extent to which those deferred tax assets have been recognised;
 - (b) for deferred tax assets which have been recognised, a description of the assets likely to be utilised by reference to probable future taxable profit and by reference to the reversion of deferred tax liabilities relating to income taxes levied by the same taxation authority;
 - (c) with regard to net deferred taxes assets calculated as the difference between the amount of deferred tax assets which has been recognised and the amount of deferred tax liabilities, all of the following information:
 - (i) confirmation that those net deferred tax assets are available as items of *basic own funds* classified as Tier 3 in accordance with Own Funds 3F.1(1)(c);
 - (ii) a description of the amount of those net deferred tax assets that are recognised as *eligible own funds*, applying the eligibility limits set out in Own Funds 4 and 4A; and
 - (iii) where the amount of deferred tax assets is material, a description of the underlying assumptions used for the projection of probable future taxable profit for the purposes of Valuation 11.

3.5B For the purposes of 3.5A(7), the names of the *counterparties* shall not be disclosed where such disclosure is legally not possible or impracticable or where the *counterparties* concerned are not material.

3.6 In addition to the requirements of 3.6A and 3.6B below, ~~the~~ the disclosure required by 3.3(5)(b) must include the following:

- (1) the amount of the *SCR* calculated by the *firm* using the *standard formula* or, where the *firm* has received ~~*internal model approval*~~ *internal model permission*, the amount of the *SCR* calculated using its *internal model* and, where applicable in the case of a *partial internal model*, the *standard formula*;
- (2) except for any *capital add-on* imposed because of an *internal model residual deviation*, the amount of any *capital add-on* imposed upon the *firm* by the *PRA* together with concise information on the justification given by the *PRA* for its imposition; and
- (3) the impact of any *undertaking specific parameters* the *firm* is required to use in calculating the *standard formula* by the *PRA* together with concise information on the justification given by the *PRA* for requiring the use of those *undertaking specific parameters*.

...

3.6A For the purposes of the disclosure required by 3.3(5)(b), the disclosure of the amount of the *SCR* calculated using the *firm's internal model* under 3.6(1) and of the *SCR* split by risk categories under 3.6B(2) may include any *capital add-on* imposed because of an *internal model residual deviation*.

3.6B For the purposes of 3.3(5)(b), the *SFCR* must include the following information regarding the *SCR* and the *MCR* of the *firm*:

- (1) the amounts of the *firm's SCR* and the *MCR* at the end of the reporting period;
- (2) the amount of the *firm's SCR* split by risk modules where the *firm* applies the *standard formula*, and by risk categories where the *firm* applies an *internal model*;
- (3) information on whether and for which risk modules and sub-modules of the *standard formula* that *firm* is using simplified calculations;
- (4) where the *firm* has been granted a *USP Permission*, information on whether and for which standard parameters of the *standard formula* the *firm* is using *undertaking specific parameters*;
- (5) information on the inputs used by the *firm* to calculate the *MCR*;
- (6) any material change to the *SCR* and to the *MCR* over the reporting period, and the reasons for any such change; and
- (7) information regarding the loss-absorbing capacity of deferred taxes, that shall contain the amount with which the *SCR* has been adjusted for the loss-absorbing capacity of deferred taxes, and a description of the deferred tax liabilities, carry-back and probable future taxable profit used to demonstrate likely utilisation.

3.7 The disclosure of the *SCR* required by 3.3(5)(b) must be accompanied, where applicable, with a statement indicating that the final amount of the *SCR* is subject to supervisory assessment.

...

3.7A In addition to the disclosure required by 3.3(5)(c), where an *internal model* is used to calculate the *SCR*, the *SFCR* shall also include the following information:

- (1) a description of the various purposes for which the *firm* is using its *internal model*;

- (2) a description of the scope of the *internal model* in terms of business units and risk categories;
 - (3) where a *partial internal model* is used, a description of the technique which has been used to integrate any *partial internal model* into the *standard formula* including, where relevant, a description of alternative techniques used;
 - (4) a description of the methods used in the *internal model* for the calculation of the probability distribution forecast and the *SCR*;
 - (5) an explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the *standard formula* and in the *internal model*;
 - (6) the *risk measure* and time period used in the *internal model*, and where they are not the same as those set out in Solvency Capital Requirement – General Provisions 3.3, an explanation of how the *SCR* calculated using the *internal model* provides *policyholders* and *beneficiaries* with a level of protection equivalent to that set out in Solvency Capital Requirement – General Provisions 3; and
 - (7) a description of the nature and appropriateness of the data used in the *internal model*.
- 3.7B In addition to the disclosure required by 3.3(5)(d), the *SFCR* shall include the following information regarding any non-compliance with the *MCR* or significant non-compliance with the *SCR* of the *firm*:
- (1) where non-compliance with the *firm's MCR* has not been subsequently resolved: the amount of the non-compliance at the reporting date; and
 - (2) where a significant non-compliance with the *firm's SCR* has not been subsequently resolved: the amount of the non-compliance at the reporting date.
- 3.7C The *SFCR* shall include any other material information, in a separate section, regarding the capital management of the *firm*.
- 3.8 Where a *firm*, in its *SFCR*, makes use of, or refers to, public disclosures made by the *firm* under other legal or regulatory requirements, those disclosures must be equivalent to the information required to be disclosed under 3.3 to 3.7, in both their nature and scope.
- 3.9 As soon as the *SFCR*, as well as any updated version of that report, is disclosed by a *firm* it shall be submitted to the *PRA*.
- 3.10 Where a *firm* discloses publicly, any information or explanation related to their solvency and financial condition whose public disclosure is not required in accordance with this Rulebook, the *firm* shall ensure that such additional information is consistent with any information provided to the *PRA* pursuant to 2.1 to 2.5.

3A SOLVENCY AND FINANCIAL CONDITION REPORT: REPORT AND TEMPLATES

Article 1: SUBJECT MATTER

[Note: Provision left blank]

Article 1A: STRUCTURE OF THE SOLVENCY AND FINANCIAL CONDITION REPORT (Annex XX)

When disclosing the information referred to in this Chapter the following headings shall be used in any *SFCR*:

SummaryA Business and PerformanceA.1 BusinessA.2 Underwriting PerformanceA.3 Investment PerformanceA.4 Performance of other activitiesA.5 Any other informationB System of GovernanceB.1 General information on the system of governanceB.2 Fit and proper requirementsB.3 Risk management system including the own risk and solvency assessmentB.4 Internal control systemB.5 Internal audit functionB.6 Actuarial functionB.7 OutsourcingB.8 Any other informationC Risk ProfileC.1 Underwriting riskC.2 Market riskC.3 Credit riskC.4 Liquidity riskC.5 Operational riskC.6 Other material risksC.7 Any other informationD Valuation for Solvency PurposesD.1 AssetsD.2 Technical provisionsD.3 Other liabilitiesD.4 Alternative methods for valuationD.5 Any other informationE Capital ManagementE.1 Own fundsE.2 Solvency Capital Requirement and Minimum Capital RequirementE.3 Differences between the standard formula and any internal model usedE.4 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital RequirementE.5 Any other information

Article 2: PUBLIC DISCLOSURE FORMATS

When disclosing the information referred to in this Chapter, figures reflecting monetary amounts must be disclosed in thousands of units.

Article 3: CURRENCY

1. For the purposes of this Chapter, 'reporting currency' shall be:
 - (a) for individual disclosure, the currency used for the preparation of the *firm's* financial statements;
 - (b) for group disclosure, the currency used for the preparation of the consolidated financial statements.
2. Figures reflecting monetary amounts must be disclosed in the reporting currency. Any other currency than the reporting currency must be converted into the reporting currency.
3. When expressing the value of any asset or liability denominated in a currency other than the reporting currency, the value must be converted in the reporting currency as if the conversion had taken place at the closing rate on the last day for which the appropriate rate is available in the reporting period to which the asset or liability relates.
4. When expressing the value of any income or expense, the value must be converted in the reporting currency using such basis of conversion as that used for accounting purposes.
5. The conversion into the reporting currency must be calculated by applying the exchange rate from the same source as used for the *firm's* financial statements in the case of individual reporting or for the consolidated financial statements in the case of group reporting.

Article 3A: MATERIALITY

For the purposes of this Chapter, information to be disclosed in this Chapter must be considered material where its omission or misstatement could influence the decision-making or judgement of the users of that information, including the *PRA*.

Article 3B: MEANS OF DISCLOSURE OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

The following must apply to the disclosure of (i) the *SFCR*; and (ii) the *SFCR* at the level of the *group* and single *SFCR* as provided for in Group Supervision 18.

1. Where a *firm* owns and maintain a website related to their business, the *SFCR* shall be disclosed on that website.
2. Where a *firm* does not own and maintain a website but is a member of a trade association which does own and maintain a website, the *SFCR* shall, where permitted by that trade association, be disclosed on the website of that association.
3. Where a *firm* discloses their *SFCR* on a website in accordance with Article 3B(1) or (2) of Chapter 3A, that report shall remain available on that website for at least five years after the disclosure date referred to in 2.5B(12).

4. Where a *firm* does not disclose their *SFCR* on a website in accordance with Article 3B(1) or (2) of Chapter 3A, they shall send an electronic copy of their report to any *person* who, within five years of the disclosure date referred to in 2.5B(12) requests the report. A *firm* shall send the report within 10 *business days* from that request.
5. A *firm* shall, irrespective of whether the *firm's SFCR* has been made available on a website in accordance with Article 3B(1) or (2) of Chapter 3A, send, to any *person* who so requests within two years of the disclosure date referred to in 2.5B(12), a printed copy of their report within 20 *business days* from that request.
6. Subject to 2.13, a *firm* shall submit to the *PRA* their *SFCR*, and any updated version of their *SFCR*, in electronic form.

Article 4: TEMPLATES FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT OF INDIVIDUAL FIRMS

1. *Firms* required to report information to the *PRA* under Reporting 3 must publicly disclose as part of their *SFCR* the following templates:
 - (a) template IR.02.01.02 of Chapter 9 specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;
 - (b) template IR.05.02.01 of Chapter 9, specifying information on *premiums*, claims and expenses by country applying the valuation and recognition principles used in the *firm's* financial statements, following the instructions set out in section IR.05.02 of Chapter 10;
 - (c) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;
 - (d) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;
 - (e) template IR.12.01.02 of Chapter 9, specifying information on life *technical provisions*, following the instructions set out in section IR.12.01 of Chapter 10;
 - (f) template IR.17.01.02 of Chapter 9, specifying information on non-life *technical provisions*, following the instructions set out in section IR.17.01 of Chapter 10 to this Part for each *line of business*;
 - (g) template IR.19.01.21 of Chapter 9, specifying information on non-life insurance claims in the format of development triangles, following the instructions set out in section IR.19.01 of Chapter 10 for the total non-life business;
 - (h) template IR.22.01.21 of Chapter 9, specifying information on the impact of the long-term guarantee and transitional measures, following the instructions set out in section IR.22.01 of Chapter 10;
 - (i) template IR.23.01.01 of Chapter 9, specifying information on *own funds*, including *basic own funds* and *ancillary own funds*, following the instructions set out in section IR.23.01 of Chapter 10;
 - (j) template IR.25.04.21 of Chapter 9, specifying information in relation to the calculation of the *SCR*, following the instructions set out in section IR.25.04 of Chapter 10;
 - (k) [Note: Provision left blank];

- (l) template IR.28.01.01 of Chapter 9, specifying information on the *MCR* for *firms* which carry on only *long-term insurance business* or only *general insurance business* or *reinsurance business*, following the instructions set out in section IR.28.01 of Chapter 10; and
- (m) template IR.28.02.01 of Chapter 9, specifying information on the *MCR* for *firms* which carry on both *long-term insurance business* and *general insurance business*, following the instructions set out in section IR.28.02 of Chapter 10.

Article 5: TEMPLATES FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT OF GROUPS

1. *Firms* required to report information on a *group* to the *PRA* under Group Supervision 18 must publicly disclose as part of their *SFCR* at the level of the *group*, the following templates (as applicable):
 - (a) template IR.32.01.22 of Chapter 9, specifying information on the *undertakings* in the scope of the *group*, following the instructions set out in section IR.32.01 of Chapter 10;
 - (b) where, for the calculation of the group solvency, the *group* uses *method 1*, either exclusively or in combination with *method 2*, template IR.02.01.02 of Chapter 9, specifying balance sheet information, using the valuation in accordance with the valuation principles set out in the Valuation Part, following the instructions set out in section IR.02.01 of Chapter 10;
 - (c) template IR.05.02.01 of Chapter 9, specifying information on *premiums*, claims and expenses by country, applying the valuation and recognition principles used in the consolidated financial statements, following the instructions set out in section IR.05.02 of Chapter 10;
 - (d) template IR.05.03.02 of Chapter 9, specifying information on life income and expenditure, following the instructions set out in section IR.05.03 of Chapter 10;
 - (e) template IR.05.04.02 of Chapter 9, specifying information on non-life income and expenditure, following the instructions set out in section IR.05.04 of Chapter 10;
 - (f) template IR.22.01.22 of Chapter 9, specifying information on the impact of the long-term guarantee and transitional measures, following the instructions set out in section IR.22.01 of Chapter 10;
 - (g) template IR.23.01.04 of Chapter 9, specifying information on *own funds*, following the instructions set out in section IR.23.01 of Chapter 10; and
 - (h) where, for the calculation of group solvency, the *group* uses *method 1*, either exclusively or in combination with *method 2*, template IR.25.04.22 of Chapter 9, specifying information in relation to the calculation of the *group SCR*, following the instructions set out in section IR.25.04 of Chapter 10.

Article 6: REFERENCES TO OTHER DOCUMENTS IN THE SOLVENCY AND FINANCIAL CONDITION REPORT

When *firms* include in the *SFCR* references to other publicly available documents, these references must be done through references that lead directly to the information itself and not to a general document.

Article 7: CONSISTENCY OF INFORMATION

Firms required to disclose information to the PRA under Reporting 3, Group Supervision 18 or Group Supervision 19 must assess whether the information disclosed is fully consistent with the information reported to the PRA.

Article 7A: ADDITIONAL INFORMATION REQUIRED FOR THE GROUP SFCR

1. The SFCR at the level of the group, as provided for in Group Supervision 18.1(1) shall include the following information regarding:
 - (a) the group's business and performance, in addition to the provisions of 3.3(1) and 3.3A:
 - (i) a description of the legal structure and the governance and organisational structure of the group, with a description of all subsidiaries, material related undertakings and significant branches; and
 - (ii) qualitative and quantitative information on relevant operations and transactions within the group.
 - (b) the group's system of governance in addition to the provisions of 3.3(2) and 3.3B:
 - (i) a description of how the risk management and internal controls and reporting procedures are implemented consistently as required by Group Supervision 17.1(2);
 - (ii) where applicable, a statement that the firm or the UK holding company has decided to produce a single document covering all of the assessments as provided by Group Supervision 17.2(3); and
 - (iii) information on any material intra-group outsourcing arrangements.
 - (c) the group's risk profile, in addition to the provisions of 3.3(2), 3.3(3) and 3.3C:
 - (i) qualitative and quantitative information on any significant risk concentration at group level as provided for in Group Supervision 16.1 and 16.1A;
 - (d) the group's valuation for solvency purposes, in addition to the provisions of 3.3(4), 3.4 and 3.4A:
 - (i) where the bases, methods and main assumptions used at group level for the valuation for solvency purposes of the group's assets, technical provisions and other liabilities differ materially from those used by any of its subsidiaries for the valuation for solvency purposes of its assets, technical provisions and other liabilities, a quantitative and qualitative explanation of any material differences.
 - (e) the group's capital management, in addition to the provisions of 3.3(5), 3.5 to 3.7C:
 - (i) whether method 1 or method 2 is used to calculate the group solvency; and where a combination of method 1 and method 2 is used, for which related undertakings method 2 is used;
 - (ii) qualitative and quantitative information on any significant restriction to the fungibility and transferability of eligible own funds for covering the group SCR;

- (iii) where *method 1* is used to calculate the *group* solvency, the amount of the consolidated *group SCR*, with separate indication of the amounts referred to in Group Supervision 11.2A;
- (iv) qualitative and quantitative information on the material sources of *group diversification effects*;
- (v) where applicable, the sum of amounts referred to in Group Supervision 11.3(1)(a) and (b);
- (vi) where applicable, a description of the *undertakings* which are in the scope of any *internal model* used to calculate the *group SCR*; and
- (vii) a description of the main differences, if any, between any *internal model* used at individual *undertaking* level and any *internal model* used to calculate the *group SCR*.

Article 7B: LANGUAGES

Firms must disclose the *SFCR* in English. This also applies to the *SFCR* at the level of the *group* and the single *SFCR*, as provided for in Group Supervision 18.

Article 7C: NON-DISCLOSURE OF INFORMATION

1. Reporting 4.2 shall apply to non-disclosure of information:

- (a) in the *SFCR* at the level of the *group* as provided for in Group Supervision 18.1(1) by *firms*;
or
- (b) in the single *SFCR*, as provided for in Group Supervision 18.1(2), as regards the information at the level of the *group* and for any of the *subsidiaries* within the *group*.

Article 7D: DEADLINES

The deadlines in 2.5B(12)(b) shall apply to the disclosure by *firms* of the *SFCR* at the level of the *group* as provided for in Group Supervision 18.1(1), or their single *SFCR*, as provided for in Group Supervision 18.1(2).

Article 7E: UPDATES AND ADDITIONAL VOLUNTARY INFORMATION

In the event of any major development that significantly affects the relevance of the *SFCR* at the level of the *group* as provided for in Group Supervision 18.1(1), or their single *SFCR*, as provided for in Group Supervision 18.1(2), Reporting 5.1 shall apply to the disclosure by *firms*.

Article 7F: SINGLE SFCR AS PROVIDED FOR IN GROUPS SUPERVISION 18

- 1. The single *SFCR*, as provided for in Group Supervision 18.1(2), shall present separately the information which must be disclosed at *group* level in accordance with Group Supervision 18.1(1)

and the information which must be disclosed in accordance with Reporting 3 to 6 for any subsidiary covered by that report.

2. The information at group level and the information for any subsidiary covered by the single SFCR, as provided for in Article 7F(1) of Chapter 3A, shall each follow the structure set out in Article 1A of Chapter 3A. Firms may decide, when providing any part of the information to be disclosed for a subsidiary covered, to refer to information at group level, where that information is equivalent in both nature and scope.
3. Where a firm provides a single SFCR in accordance with Group Supervision 18.1(2) in respect of some of their subsidiaries only, the following obligations shall apply:
 - (a) the other insurance undertakings which are subsidiaries of that firm shall include in their SFCR a reference to the single SFCR disclosed; and
 - (b) the single SFCRs disclosed in accordance with Group Supervision 18.1(2) shall equally include a reference to the SFCR of those other insurance undertakings.
4. Where firms do not provide a single SFCR, the insurance undertakings which are subsidiaries of that firm shall include in their SFCR a reference to the SFCRs at the level of the group disclosed in accordance with Group Supervision 18.1(1).

Article 8: INVOLVEMENT OF THE SUBSIDIARIES IN THE SINGLE SOLVENCY AND FINANCIAL CONDITION REPORT

1. [Note: Provision left blank]
2. Firms required to disclose information on a group to the PRA under Group Supervision 18 or Group Supervision 19 must provide an explanation on how the subsidiaries shall be covered and how the subsidiaries' administrative, management or supervisory body shall be involved in the process and in the approval of the single SFCR.

4 PERMITTED NON-DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT

- 4.1 Where a firm is granted a waiver by the PRA permitting the firm not to disclose information otherwise required to be disclosed pursuant to 3.3(1) to (4) and 3.4 in its SFCR, the firm must make a statement to this effect in its SFCR and state whether the non-disclosure is permitted because:
 - (1) the disclosure of that information would enable competitors of the firm to gain a significant, undue advantage; or
 - (2) the firm has obligations to policyholders or other ~~counterparty~~ counterparty relationships which bind the firm to secrecy or confidentiality.

...
- 4.2 A firm shall notify the PRA as soon as the reason for any non-disclosure, which is the subject of a waiver, as provided for in 4.1, ceases to exist.

5 UPDATES AND ADDITIONAL VOLUNTARY INFORMATION: SOLVENCY AND FINANCIAL CONDITION REPORT

- 5.1 In the event of any major development affecting significantly the relevance of the information

disclosed in accordance with:

- (1) 3.3 to 3.8; ~~or~~
(1a) Group Supervision 18; or
- (2) 4.1;

a *firm* must disclose publicly appropriate information on the nature and effects of that major development.

...

5.1A Where the circumstances described in 5.1 arise, a *firm* must publish an updated version of their SFCR in accordance with 5.1B. Reporting 3.2 to 3.7C, 3.10, and, where applicable, Articles 7A to 7C, 7F(1) to (2) of Chapter 3A, shall apply to that updated version.

5.1B Without prejudice to any disclosure which must be immediately provided by a *firm* in accordance with the requirements of 5.1, 5.2 to 5.5, any updated version of the SFCR must be disclosed as soon as possible after the major development referred to in 5.1A, in accordance with the provisions set out in Article 3B of Chapter 3A.

5.1C Notwithstanding 5.1A and 5.1B, a *firm* may decide, for the purposes of Article 3B(5) of Chapter 3A, to disclose appropriate information on the nature and effects of any major development significantly affecting the relevance of their SFCR in the form of amendments supplementing the initial report.

...

7 LLOYD'S

7.1 A *managing agent* must, as promptly as possible, submit any information to the *Society* that is necessary for the *Society* to comply with its obligations in this Part ~~or under the Solvency II Regulations~~.

...

7.3 The *Society* must provide to the *PRA* in electronic format the *Lloyd's templates* it receives from each *managing agent* on behalf of each respective *syndicate* that the *managing agent* manages at the same time it submits its templates required by paragraph 6 of Article 21A of Chapter 2A ~~national specific templates required by 2.8~~.

8 NATIONAL SPECIFIC TEMPLATES~~[DELETED]~~

8.0 NS.00 can be found here.~~[Deleted]~~

8.1 NS.01 can be found here.~~[Deleted]~~

8.2 NS.02 can be found here.~~[Deleted]~~

8.3 NS.03 can be found here.~~[Deleted]~~

8.4 NS.04 can be found here.~~[Deleted]~~

8.5 NS.05 can be found here.~~[Deleted]~~

8.6 NS.06 can be found here.~~[Deleted]~~

8.7 NS.07 can be found here.~~[Deleted]~~

8.8 NS.08 can be found here.~~[Deleted]~~

8.9 NS.09 can be found here.~~[Deleted]~~

- 8.10 ~~NS.10 can be found here.~~[Deleted]
- 8.11 ~~NS.11 can be found here.~~[Deleted]
- 8.12 ~~NS.12 can be found here.~~[Deleted]
- 8.13 ~~NS.13 can be found here.~~[Deleted]

9 REPORTING AND DISCLOSURE TEMPLATES

9.1 The following IR.01.01 templates can be found [here](#):

- (a) template IR.01.01.01, specifying the content of the submission;
- (b) template IR.01.01.02, specifying the content of the submission;
- (c) template IR.01.01.04, specifying the content of the submission;
- (d) template IR.01.01.05, specifying the content of the submission;
- (e) template IR.01.01.07, specifying the content of the submission;
- (f) template IR.01.01.08, specifying the content of the submission;
- (g) template IRR.01.01.01, specifying the content of the submission;
- (h) template IRR.01.01.04, specifying the content of the submission; and
- (i) template IRR.01.01.07, specifying the content of the submission.

9.2 The following IR.01.02 templates can be found [here](#):

- (a) template IR.01.02.01, specifying basic information on the *firm* and the content of reporting in general;
- (b) template IR.01.02.04, specifying basic information on the *group* and the content of the reporting in general; and
- (c) template IR.01.02.07, specifying basic information on the *third country branch* and the content of the reporting in general.

9.3 The following IR.01.03 templates can be found [here](#):

- (a) template IR.01.03.01, specifying basic information on ring-fenced funds and *matching adjustment portfolios*; and
- (b) template IR.01.03.04, specifying basic information on ring-fenced funds and *matching adjustment portfolios*.

9.4 The following IR.01.04 templates can be found [here](#):

- (a) template IR.01.04.07, specifying information regarding the financial position, including solvency, of the *third country branch undertaking*.

9.5 The following IR.02.01 templates can be found [here](#):

- (a) template IR.02.01.01, specifying balance sheet information using both the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the *firm's* financial statements (or the consolidated financial statements, as applicable);
- (b) template IR.02.01.02, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part;

- (c) template IR.02.01.07, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation according to the branch management accounts value for the branch operations;
 - (d) template IR.02.01.08, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part;
 - (e) template IRR.02.01.01, specifying balance sheet information using both the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation following the *firm's* financial statements (or the consolidated financial statements, as applicable); and
 - (f) template IRR.02.01.07, specifying balance sheet information using the valuation in accordance with the valuation principles set out in the Valuation Part and the valuation according to the branch management accounts value for the branch operations.
- 9.6 The following IR.02.02 templates can be found [here](#):
- (a) template IR.02.02.01, specifying information on assets and liabilities by currency.
- 9.7 The following IR.02.03 templates can be found [here](#):
- (a) template IR.02.03.07, specifying additional branch balance sheet information.
- 9.8 The following IR.03.01 templates can be found [here](#):
- (a) template IR.03.01.01, specifying general information on off-balance sheet items; and
 - (b) template IR.03.01.04, specifying general information on off-balance sheet items.
- 9.9 The following IR.03.02 template can be found [here](#):
- (a) template IR.03.02.01, providing a list of off-balance sheet unlimited guarantees received; and
 - (b) template IR.03.02.04, providing a list of off-balance sheet unlimited guarantees received.
- 9.10 The following IR.03.03 templates can be found [here](#):
- (a) template IR.03.03.01, providing a list of off-balance sheet unlimited guarantees provided; and
 - (b) template IR.03.03.04, providing a list of off-balance sheet unlimited guarantees provided.
- 9.11 The following IR.05.02 templates can be found [here](#):
- (a) template IR.05.02.01, specifying information on *premiums*, claims and expenses by country, applying the valuation and recognition principles used in the *firm's* financial statements (or in the consolidated financial statements or the branch management accounts for the branch operations, as applicable).
- 9.12 The following IR.05.03 templates can be found [here](#):
- (a) template IR.05.03.01, specifying information on life income and expenditure;
 - (b) template IR.05.03.02, specifying information on life income and expenditure; and
 - (c) template IRR.05.03.01, specifying information on life income and expenditure.
- 9.13 The following IR.05.04 templates can be found [here](#):
- (a) template IR.05.04.01, specifying information on non-life income, expenditure and business model analysis;
 - (b) template IR.05.04.02, specifying information on non-life income and expenditure; and

(c) template IR.05.04.07, specifying information on non-life income, expenditure and business model analysis.

9.14 The following IR.05.05 templates can be found [here](#):

(a) template IR.05.05.01, specifying information on life *premiums* and claims by country.

9.15 The following IR.05.06 templates can be found [here](#):

(a) template IR.05.06.01, specifying information on non-life *premiums* and claims by country.

9.16 The following IR.05.07 templates can be found [here](#):

(a) template IR.05.07.01, specifying information on the portfolio of *securities*.

9.17 The following IR.05.08 templates can be found [here](#):

(a) template IR.05.08.01, specifying information on *material pooling agreements*.

9.18 The following IR.05.09 templates can be found [here](#):

(a) template IR.05.09.01, specifying information on calls for contributions and the financial performance of the *firm* (or *third country branch*, as applicable).

9.19 The following IR.05.10 templates can be found [here](#):

(a) template IR.05.10.01, specifying excess capital generation.

9.20 The following IR.06.02 templates can be found [here](#):

(a) template IR.06.02.01, providing an item-by-item list of assets; and

(b) template IR.06.02.04, providing an item-by-item list of assets.

9.21 The following IR.06.03 templates can be found [here](#):

(a) template IR.06.03.01, providing information on the look-through of all collective investments held by the *firm* (or *group*, as applicable).

9.22 The following IR.08.01 templates can be found [here](#):

(a) template IR.08.01.01, providing an item-by-item list of open positions of derivatives; and

(b) template IR.08.01.04, providing an item-by-item list of open positions of derivatives.

9.23 The following IR.09.01 templates can be found [here](#):

(a) template IR.09.01.01, specifying information on income, gains and losses in the reporting period by asset category; and

(b) template IR.09.01.04, specifying information on income, gains and losses in the reporting period by asset category.

9.24 The following IR.10.01 templates can be found [here](#):

(a) template IR.10.01.01, providing an item-by-item list of securities lending and repurchase agreements, on and off-balance sheet; and

(b) template IR.10.01.04, providing an item-by-item list of securities lending and repurchase agreements on and off-balance sheet.

9.25 The following IR.11.01 templates can be found [here](#):

(a) template IR.11.01.01, providing an item-by-item list of assets held as collateral, consisting of all types of off-balance sheet asset categories held as collateral; and

(b) template IR.11.01.04, providing an item-by-item list of assets held as collateral, consisting of all types of off-balance sheet asset categories held as collateral.

9.26 The following IR.12.01 templates can be found [here](#):

- (a) template IR.12.01.01, specifying information on life *technical provisions* (or the provisions referred to in Third Country Branches 6.1 (life), as applicable);
- (b) template IR.12.01.02, specifying information on life *technical provisions* (or the provisions referred to in Third Country Branches 6.1 (life), as applicable); and
- (c) template IRR.12.01.01, specifying information on life *technical provisions* (or the provisions referred to in Third Country Branches 6.1 (life), as applicable).

9.27 The following IR.12.03 templates can be found [here](#):

- (a) template IR.12.03.01, specifying information on life *best estimate* (or life *branch best estimate*, as applicable) liabilities by country.

9.28 The following IR.12.04 templates can be found [here](#):

- (a) template IR.12.04.01, specifying information on *best estimate* assumptions for life insurance risks.

9.29 The following IR.12.05 templates can be found [here](#):

- (a) template IR.12.05.01, specifying information on value of bonus for *with-profits insurance business*; and
- (b) template IRR.12.05.01, specifying information on value of bonus for *with-profits insurance business*.

9.30 The following IR.12.06 templates can be found [here](#):

- (a) template IR.12.06.01, specifying information on liabilities and assets for *with-profits insurance business*; and
- (b) template IRR.12.06.01, specifying information on liabilities and assets for *with-profits insurance business*.

9.31 The following IR.14.01 templates can be found [here](#):

- (a) template IR.14.01.01 specifying information on life obligations analysis, including life insurance and *reinsurance contracts* and annuities stemming from non-life contracts, by product issued by the *firm* (or *third country branch*, as applicable).

9.32 The following IR.16.01 templates can be found [here](#):

- (a) template IR.16.01.01, specifying information on annuities stemming from non-life insurance obligations issued by the *firm* (or *third country branch*, as applicable) under direct insurance business, regarding all *lines of business* originating annuities and additionally by currency.

9.33 The following IR.16.02 templates can be found [here](#):

- (a) template IR.16.02.01, specifying information on the projection of *best estimate* (or *branch best estimate*, as applicable) future cash flows of annuities stemming from non-life business.

9.34 The following IR.17.01 templates can be found [here](#):

- (a) template IR.17.01.01, specifying information on non-life *technical provisions* (or the provisions referred to in Third Country Branches 6.1 (non-life), as applicable) by *line of business*;
- (b) template IR.17.01.02, specifying information on non-life *technical provisions* (or provisions referred to in Third Country Branches 6.1 (non-life), as applicable) for each *line of business*; and

- (c) template IRR.17.01.01, specifying information on non-life *technical provisions* (or provisions referred to in Third Country Branches 6.1 (non-life), as applicable), for each *line of business*.

9.35 The following IR.17.03 templates can be found [here](#):

- (a) template IR.17.03.01, specifying information on non-life *best estimate* (or non-life *branch best estimate*, as applicable) liabilities by country.

9.36 The following IR.18.01 templates can be found [here](#):

- (a) template IR.18.01.01, specifying information on the projection of future cash flows based on the *best estimate* (or *branch best estimate*, as applicable) of the non-life business.

9.37 The following IR.18.02 templates can be found [here](#):

- (a) template IR.18.02.01, specifying information on the projection of future cash flows based on liabilities of the non-life business.

9.38 The following IR.19.01 templates can be found [here](#):

- (a) template IR.19.01.01, specifying information on non-life insurance claims in the format of development triangles, for the total of each non-life *line of business* and additionally by currency; and
 (b) template IR.19.01.21, specifying information on non-life insurance claims in the format of development triangles.

9.39 The following IR.19.02 templates can be found [here](#):

- (a) template IR.19.02.01, specifying information on non-life insurance claims.

9.40 The following IR.20.01 templates can be found [here](#):

- (a) template IR.20.01.01, specifying information on the development of the distribution of the claims incurred at the end of the financial year for each *line of business*.

9.41 The following IR.21.02 templates can be found [here](#):

- (a) template IR.21.02.01, specifying information on non-life *underwriting risks*.

9.42 The following IR.21.04 templates can be found [here](#):

- (a) template IR.21.04.01, specifying information on cyber *underwriting risk*.

9.43 The following IR.22.01 templates can be found [here](#):

- (a) template IR.22.01.01, specifying information on the impact of the long term guarantees and transitional measures;
 (b) template IR.22.01.04, specifying information on the impact of the long term guarantee and transitional measures;
 (c) template IR.22.01.21, specifying information on the impact of the long term guarantee and transitional measures; and
 (d) template IR.22.01.22, specifying information on the impact of the long term guarantee and transitional measures.

9.44 The following IR.22.02 templates can be found [here](#):

- (a) template IRR.22.02.01, specifying information on the projection of future cash flows for the *best estimate* calculation by each *matching adjustment portfolio*.

9.45 The following IR.22.03 templates can be found [here](#):

- (a) template IRR.22.03.01, specifying information on the *matching adjustment portfolios* by each *matching adjustment portfolio*.
- 9.46 The following IR.22.04 templates can be found [here](#):
- (a) template IR.22.04.01, specifying information on the interest rate transitional measure.
- 9.47 The following IR.22.07 templates can be found [here](#):
- (a) template IR.22.07.01, specifying information on the *best estimate* subject to *volatility adjustment* by currency.
- 9.48 The following IR.23.01 templates can be found [here](#):
- (a) template IR.23.01.01 specifying information on *own funds*; and
 (b) template IR.23.01.04, specifying information on *own funds*.
- 9.49 The following IR.23.02 templates can be found [here](#):
- (a) template IR.23.02.01, providing detailed information on *own funds* by tiers; and
 (b) template IR.23.02.04, providing detailed information on *own funds* by tiers.
- 9.50 The following IR.23.03 templates can be found [here](#):
- (a) template IR.23.03.01, specifying information on annual movements on *own funds*; and
 (b) template IR.23.03.04, specifying information on annual movements on *own funds*.
- 9.51 The following IR.23.04 templates can be found [here](#):
- (a) template IR.23.04.01, providing a list of items on *own funds*; and
 (b) template IR.23.04.04, providing a list of items on *own funds*.
- 9.52 The following IR.23.05 templates can be found [here](#):
- (a) template IR.23.05.03, specifying information on the *Society's SCR* and *MCR*.
- 9.53 The following IR.24.01 templates can be found [here](#):
- (a) template IR.24.01.01, specifying information on *participations* held by the *firm* and an overview of the calculation for the deduction from *own funds* related to *participations* in financial and *credit institutions*.
- 9.54 The following IR.25.04 templates can be found [here](#):
- (a) template IR.25.04.01, specifying information in relation to the calculation of the *SCR*;
 (b) template IR.25.04.04, specifying information in relation to the calculation of the *group SCR*;
 (c) template IR.25.04.21, specifying information in relation to the calculation of the *SCR*;
 (d) template IR.25.04.22, specifying information in relation to the calculation of the *group SCR*; and
 (e) template IRR.25.04.01, specifying information in relation to the calculation of the notional *SCR* (or the notional *group SCR*, as applicable).
- 9.55 The following IR.25.05 templates can be found [here](#):
- (a) template IR.25.05.01, specifying information in relation to the calculation of the *SCR* (or the *group SCR*, as applicable) where the *firm* (or *group*, as applicable) uses one or more *internal models* or a *partial internal model*; and

- (b) template IRR.25.05.01 specifying information on the notional SCR (ring-fenced funds, matching adjustment portfolios, remaining part) where the firm uses a full internal model or a partial internal model.

9.56 The following IR.25.06 templates can be found [here](#):

- (a) template IR.25.06.01, specifying the SCR – loss-absorbing capacity of deferred taxes.

9.57 The following IR.26.01 templates can be found [here](#):

- (a) template IR.26.01.01, specifying information on market risk; and
- (b) template IRR.26.01.01, specifying information on market risk.

9.58 The following IR.26.02 templates can be found [here](#):

- (a) template IR.26.02.01, specifying information on counterparty default risk; and
- (b) template IRR.26.02.01, specifying information on counterparty default risk.

9.59 The following IR.26.03 templates can be found [here](#):

- (a) template IR.26.03.01, specifying information on life underwriting risk; and
- (b) template IRR.26.03.01, specifying information on life underwriting risk.

9.60 The following IR.26.04 templates can be found [here](#):

- (a) template IR.26.04.01, specifying information on health underwriting risk; and
- (b) template IRR.26.04.01, specifying information on health underwriting risk.

9.61 The following IR.26.05 templates can be found [here](#):

- (a) template IR.26.05.01, specifying information on non-life underwriting risk; and
- (b) template IRR.26.05.01, specifying information on non-life underwriting risk.

9.62 The following IR.26.06 templates can be found [here](#):

- (a) template IR.26.06.01, specifying information on operational risk; and
- (b) template IRR.26.06.01, specifying information on operational risk.

9.63 The following IR.26.07 templates can be found [here](#):

- (a) template IR.26.07.01, specifying information on the simplifications used in the calculation of the SCR; and
- (b) template IRR.26.07.01, specifying information on the simplifications used in the calculation of the notional SCR.

9.64 The following IR.27.01 templates can be found [here](#):

- (a) template IR.27.01.01, specifying information on SCR (non-life and health catastrophe risk); and
- (b) template IRR.27.01.01, specifying information on notional SCR (non-life and health catastrophe risk), can be found here.

9.65 The following IR.28.01 templates can be found [here](#):

- (a) template IR.28.01.01, specifying information on the MCR where firms carry on only long-term insurance business or only general insurance business or reinsurance business.

9.66 The following IR.28.02 templates can be found [here](#):

- (a) template IR.28.02.01, specifying information on the MCR where firms carry on both long-term and general insurance business.

9.67 The following IR.30.03 templates can be found [here](#):

- (a) template IR.30.03.01, specifying information on outwards *reinsurance contracts* in the next reporting year covering information on outwards *reinsurance* facultative and treaty arrangements the period of validity of which includes or overlaps with the next reporting year.

9.68 The following IR.30.04 templates can be found [here](#):

- (a) template IR.30.04.01, specifying information on *reinsurer* participations on the outwards *reinsurance contracts* in the next reporting year covering information on outwards *reinsurance* facultative and treaty arrangements the period of validity of which includes or overlaps with the next reporting year.

9.69 The following IR.30.05 templates can be found [here](#):

- (a) template IR.30.05.01, specifying *reinsurer* and collateral provider entity information.

9.70 The following IR.30.06 templates can be found [here](#):

- (a) template IR.30.06.01, specifying life outwards *reinsurance* summary.

9.71 The following IR.30.07 templates can be found [here](#):

- (a) template IR.30.07.01, specifying life outwards *reinsurance* proportional cover.

9.72 The following IR.30.08 templates can be found [here](#):

- (a) template IR.30.08.01, specifying life outwards *reinsurance* non-proportional cover.

9.73 The following IR.31.01 templates can be found [here](#):

- (a) template IR.31.01.01, specifying information on outwards *reinsurance* balance sheet exposures (or branch balance sheet exposures, as applicable); and
- (b) template IR.31.01.04, specifying information on outwards *reinsurance* balance sheet exposures.

9.74 The following IR.32.01 templates can be found [here](#):

- (a) template IR.32.01.04, specifying information on the *insurance undertakings* and *reinsurance undertakings* in the scope of the *group*; and
- (b) template IR.32.01.22, specifying information on the *undertakings* in the scope of the *group*.

9.75 The following IR.33.01 templates can be found [here](#):

- (a) template IR.33.01.04, specifying information on requirements of *insurance undertakings* and *reinsurance undertakings* in the scope of the *group*.

9.76 The following IR.34.01 templates can be found [here](#):

- (a) template IR.34.01.04, specifying information on financial *undertakings*, other than *insurance undertakings* and *reinsurance undertakings*, and on *non-regulated undertakings carrying out financial activities*.

9.77 The following IR.35.01 templates can be found [here](#):

- (a) template IR.35.01.04, specifying information on *technical provisions* (or equivalent) of *third country insurance undertakings* and *third country reinsurance undertakings* within the *group*.

9.78 The following IR.36.01 templates can be found [here](#):

- (a) template IR.36.01.01, specifying information on significant *intra-group transactions*, involving equity-type transactions, debt and asset transfer.

9.79 The following IR.36.02 templates can be found [here](#):

- (a) template IR.36.02.01, specifying information on significant *intra-group transactions* on derivatives, including the guarantees supporting any derivatives instruments.

9.80 The following IR.36.04 templates can be found [here](#):

- (a) template IR.36.04.01, specifying information on significant *intra-group transactions* on internal cost sharing, contingent liabilities other than derivatives and off-balance sheet items and other types of *intra-group transactions*.

9.81 Template QMC.01, specifying information on model changes and supporting qualitative information, can be found [here](#).

9.82 Template AoC.01, setting out the analysis of change referred to in Solvency Capital Requirement Models 13A, including both quantitative and qualitative information and a supporting qualitative analysis, can be found [here](#).

9.83 The following MALIR templates can be found [here](#):

- (a) template MALIR 1, specifying *firm* information; and
- (b) template MALIR 2, specifying asset cash-flows; and
- (c) template MALIR 3, specifying liability cash-flows; and
- (d) template MALIR 4, specifying *matching adjustment portfolio* output; and
- (e) template MALIR 5, specifying matching tests; and
- (f) template MALIR 6, specifying further information on assets; and
- (g) template MALIR 7, specifying the reconciliation with IR.06.02.

10 REPORTING AND DISCLOSURE TEMPLATES DATA ITEM INSTRUCTIONS

10.1 Section IR.01.01 instructions can be found [here](#).

10.2 Section IR.01.02 instructions can be found [here](#).

10.3 Section IR.01.03 instructions can be found [here](#).

10.4 Section IR.01.04 instructions can be found [here](#).

10.5 Section IR.02.01 instructions can be found [here](#).

10.6 Section IR.02.02 instructions can be found [here](#).

10.7 Section IR.02.03 instructions can be found [here](#).

10.8 Section IR.03.01 instructions can be found [here](#).

10.9 Section IR.03.02 instructions can be found [here](#).

10.10 Section IR.03.03 instructions can be found [here](#).

10.11 Section IR.05.02 instructions can be found [here](#).

10.12 Section IR.05.03 instructions can be found [here](#).

10.13 Section IR.05.04 instructions can be found [here](#).

10.14 Section IR.05.05 instructions can be found [here](#).

10.15 Section IR.05.06 instructions can be found [here](#).

10.16 Section IR.05.07 instructions can be found [here](#).

10.17 Section IR.05.08 instructions can be found [here](#).

10.18 Section IR.05.09 instructions can be found [here](#).

10.19 Section IR.05.10 instructions can be found [here](#).

10.20 Section IR.06.02 instructions can be found [here](#).

10.21 Section IR.06.03 instructions can be found [here](#).

10.22 Section IR.08.01 instructions can be found [here](#).

10.23 Section IR.09.01 instructions can be found [here](#).

10.24 Section IR.10.01 instructions can be found [here](#).

10.25 Section IR.11.01 instructions can be found [here](#).

10.26 Section IR.12.01 instructions can be found [here](#).

10.27 Section IR.12.03 instructions can be found [here](#).

10.28 Section IR.12.04 instructions can be found [here](#).
10.29 Section IR.12.05 instructions can be found [here](#).
10.30 Section IR.12.06 instructions can be found [here](#).
10.31 Section IR.14.01 instructions can be found [here](#).
10.32 Section IR.16.01 instructions can be found [here](#).
10.33 Section IR.16.02 instructions can be found [here](#).
10.34 Section IR.17.01 instructions can be found [here](#).
10.35 Section IR.17.03 instructions can be found [here](#).
10.36 Section IR.18.01 instructions can be found [here](#).
10.37 Section IR.18.02 instructions can be found [here](#).
10.38 Section IR.19.01 instructions can be found [here](#).
10.39 Section IR.19.02 instructions can be found [here](#).
10.40 Section IR.20.01 instructions can be found [here](#).
10.41 Section IR.21.02 instructions can be found [here](#).
10.42 Section IR.21.04 instructions can be found [here](#).
10.43 Section IR.22.01 instructions can be found [here](#).
10.44 Section IR.22.02 instructions can be found [here](#).
10.45 Section IR.22.03 instructions can be found [here](#).
10.46 Section IR.22.04 instructions can be found [here](#).
10.47 Section IR.22.07 instructions can be found [here](#).
10.48 Section IR.23.01 instructions can be found [here](#).
10.49 Section IR.23.02 instructions can be found [here](#).
10.50 Section IR.23.03 instructions can be found [here](#).
10.51 Section IR.23.04 instructions can be found [here](#).
10.52 Section IR.23.05 instructions can be found [here](#).
10.53 Section IR.24.01 instructions can be found [here](#).
10.54 Section IR.25.04 instructions can be found [here](#).
10.55 Section IR.25.05 instructions can be found [here](#).
10.56 Section IR.25.06 instructions can be found [here](#).
10.57 Section IR.26.01 instructions can be found [here](#).
10.58 Section IR.26.02 instructions can be found [here](#).
10.59 Section IR.26.03 instructions can be found [here](#).
10.60 Section IR.26.04 instructions can be found [here](#).
10.61 Section IR.26.05 instructions can be found [here](#).
10.62 Section IR.26.06 instructions can be found [here](#).
10.63 Section IR.26.07 instructions can be found [here](#).
10.64 Section IR.27.01 instructions can be found [here](#).
10.65 Section IR.28.01 instructions can be found [here](#).
10.66 Section IR.28.02 instructions can be found [here](#).
10.67 Section IR.30.03 instructions can be found [here](#).
10.68 Section IR.30.04 instructions can be found [here](#).
10.69 Section IR.30.05 instructions can be found [here](#).
10.70 Section IR.30.06 instructions can be found [here](#).
10.71 Section IR.30.07 instructions can be found [here](#).
10.72 Section IR.30.08 instructions can be found [here](#).
10.73 Section IR.31.01 instructions can be found [here](#).
10.74 Section IR.32.01 instructions can be found [here](#).
10.75 Section IR.33.01 instructions can be found [here](#).
10.76 Section IR.34.01 instructions can be found [here](#).
10.77 Section IR.35.01 instructions can be found [here](#).
10.78 Section IR.36.01 instructions can be found [here](#).
10.79 Section IR.36.02 instructions can be found [here](#).

10.80 Section IR.36.04 instructions can be found [here](#).

10.81 Section QMC.01 instructions can be found [here](#).

10.82 Section AoC.01 instructions can be found [here](#).

10.83 Section MALIR instructions can be found [here](#).

Annex B

Amendments to the External Audit Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies:

- (1) to a *UK Solvency II firm* that is not a *small firm for external audit purposes*;
- (2) to the *Society* in accordance with General Application 3; and
- (3) at the level of a *group*, that is not a *small group for external audit purposes*, to which Group Supervision 2.1(1) or 2.1(2) applies and where the *PRA* is the *group supervisor*, to a *relevant insurance group undertaking*; and
- (4) to an external auditor of such a *firm* or *group*.

...

1.3 In this Part, the following definitions shall apply:

...

~~*annual quantitative reporting template*~~

~~means a reporting template set out in EU Regulation 2015/2450 or any other relevant Solvency II Regulations.~~

...

~~*delegated act*~~

~~means Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as it has effect as *retained direct EU legislation* as at 31 December 2023.~~

general insurance best estimate liability

means:

- (1) the sum of items entered under row codes ~~R0010, R0370, R0380, R0410 and R0420~~, column code C0180, of the ~~*annual quantitative reporting template*~~ template SIR.17.01.01 set out in the Reporting Part; plus
- (2) the ~~sum of items entered under row codes R0010 and R0030, column codes C0090, C0140 and C0190, of the *annual quantitative reporting template*~~ template SIR.12.01.01 set out in the Reporting Part,

in each case as required to be reported to the *PRA* for the relevant financial year end.

general insurance gross written premium

means the total of items entered under row codes ~~R0110, R0120 and R0130~~, as expressed in column code ~~C0015~~ C0200 where this column is completed for those row codes, of the ~~*annual quantitative reporting template*~~ S.05.01.01 template IR.05.04.01 set out in the Reporting Part, in each case as required to be reported to the *PRA* for the relevant financial year end.

...

life insurance best estimate liability

means:

- (1) the ~~sum of items entered under row codes R0010 and R0030, column codes C0150 and C0210 C0070 of the annual quantitative reporting template template SIR.12.01.01 set out in the Reporting Part; minus~~
 - (2) the ~~sum of items entered under row codes R0010 and R0030, column codes C00940, C0140 and C0190 of the annual quantitative reporting template template SIR.12.01.01 set out in the Reporting Part; minus~~
 - (3) *corporate pensions business* reported under column code C0180 of the ~~annual quantitative reporting template template SIR.14.01.01 set out in the Reporting Part,~~
- in each case as required to be reported to the *PRA* for the relevant financial year end.

life insurance gross written premium

means:

- (1) the item entered under row code ~~R0030R1440~~, column code ~~C0070C0300~~ of the ~~annual quantitative reporting template template IR.05.03.01 set out in the Reporting PartS05.04.04; minus~~
 - (2) *corporate pensions business* under column code C0060 of the ~~annual quantitative reporting template template SIR.14.01.01 set out in the Reporting Part,~~
- in each case as required to be reported to the *PRA* for the relevant financial year end.

...

SFCR Implementing Technical Standard

means Commission Implementing Regulation (EU) No. of 2015/2452 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report according to Directive 2009/138/EC of the European Parliament of the Council

...

2 EXTERNAL AUDIT OF RELEVANT ELEMENTS OF THE SFCR

...

2.2 The *relevant elements of the SFCR* are:

- (1) Subject to (3), (4) and 4.2, the information that a *firm* and a *group* discloses pursuant to Article ~~296, 297, and 359(d) and (e) of the delegated act~~ Reporting 3.3(5)(d), 3.4, 3.4A, 3.5A, 3.5B, 3.6B, 3.7A to 3.7C, and Articles 7A(1)(d) and 7A(1)(e) of Chapter 3A of the Reporting Part of the *PRA* Rulebook;
- (2) Subject to (3), (4) and 4.2 and where appropriate, the following templates that are provided in the ~~Reporting PartSFCR Implementing Technical Standard;~~
 - (a) IRS.02.01.02
 - (b) IRS.12.01.02
 - (c) IRS.17.01.02
 - (d) IRS.22.01.21

- (e) IRS.22.01.22
- (f) IRS.23.01.01
- (g) IRS.23.01.2204
- (h) S.25.01.21IR.25.04.21
- (i) S.25.01.22IR.25.04.22
- (j) IRS.28.01.01
- (k) IRS.28.02.01
- (l) IRS.32.01.22

Annex C

Amendments to the Fees 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:

...

annual quantitative reporting template

means a reporting template set out in ~~EU Regulation 2015/2450 or any other relevant Solvency II Regulations.~~

...

best estimate liabilities for fees purposes

means:

- (1) for UK Solvency II firms in the *general insurance fee block* (A3), the sum of items entered under row codes ~~R0010, R0370, R0380, R0410 and R0420~~, column code C0180, of the ~~annual quantitative reporting template~~ SIR.17.01.01 set out in the Reporting Part, plus the sum of items entered under row codes ~~R0010 and R0030~~, column codes C0090, ~~C0140 and C0190~~, of the ~~annual quantitative reporting template~~ SIR.12.01.01 set out in the Reporting Part, as reported to the PRA;

...

- (3) for UK Solvency II firms in the *life insurance fee block* (A4), the sum of items entered under row codes ~~R0010 and R0030~~, column codes ~~C0150 and C0210~~ C0070, minus the sum of items entered under row codes ~~R0010 and R0030~~, column codes ~~C0090, C0140 and C0190~~ of the ~~annual quantitative reporting template~~ SIR.12.01.01 set out in the Reporting Part, minus *corporate pensions business* reported under column code C0180 of the ~~annual quantitative reporting template~~ SIR.14.01.01 set out in the Reporting Part, and minus 0.35 x *unit-linked business* which is not also *corporate pensions business* reported under column code C0180 of the ~~annual quantitative reporting template~~ SIR.14.01.01 set out in the Reporting Part, as reported to the PRA.

...

corporate pensions business

means business reported using product ID codes 300-322 for the ~~annual quantitative reporting template~~ SIR.14.01.01 set out in the Reporting Part.

...

gross written premium for fees purposes

means:

- (1) for UK Solvency II firms in the *general insurance fee block* (A3), the total of items entered under row codes ~~R0110, R0120 and R0130~~, as expressed in column code ~~C0015~~ C0200 where this column is completed for those row codes, of the ~~annual quantitative reporting template~~ SIR.05.04.01 set out in the Reporting Part SIR.05.01.01, as reported to the PRA;

...

- (3) for *UK Solvency II firms* in the *life insurance fee block (A4)*, the item entered under row code ~~R0030R1410~~, column code ~~C0070C0300~~ of the ~~annual quantitative reporting template~~ ~~template~~ ~~S05.01.04~~ ~~IR.05.03.01~~ set out in the Reporting Part minus *corporate pensions business* reported under column code C0060 of the ~~annual quantitative reporting template~~ ~~template~~ ~~SIR.14.01.01~~ set out in the Reporting Part, and minus 0.35 x *unit-linked business* which is not also *corporate pensions business* reported under column code C0060 of the ~~annual quantitative reporting template~~ ~~template~~ ~~SIR.14.01.01~~ set out in the Reporting Part, as reported to the PRA.

...

unit-linked business

means business reported using product ID codes 102, 112, 122, 132, 202, 212, 222, 232, 302, 312, 322, 622, and 722 for the ~~annual quantitative reporting template~~ ~~template~~ ~~SIR.14.01.01~~ set out in the Reporting Part.

...

Note: Solvency Capital Requirement – Standard Formula 3B6.6(1) has been amended by the PRA Rulebook: SII Firms: Solvency II Amendment (No 1) Instrument 2024 to correct an error.

PRA RULEBOOK: SOLVENCY II 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); 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.

PRA Rulebook: Solvency II Instrument 2024

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

Part	Annex
Glossary	A
Actuaries	B
Conditions Governing Business	C
External Audit	D
Financial Conglomerates	E
Group Supervision	F
Investments	G
Lloyd's	H
Insurance Special Purpose Vehicles	I
Matching Adjustment	J
Minimum Capital Requirement	K
Own Funds	L
Own Funds	M
Own Funds and Eligible Liabilities (CRR) Part	N
Solvency Capital Requirement – Standard Formula	O

Solvency Capital Requirement – Undertaking Specific Parameters	P
Surplus Funds	Q
Technical Provisions	R
Technical Provisions – Further Requirements	S
Third Country Branches	T
Transitional Measures Part	U
Undertakings in Difficulty	V
Valuation	W

Defined terms and cross references

- D. This instrument includes (1) the use of terms that are added to the Glossary Part of the PRA Rulebook; and (2) cross references to rules that are added to the PRA Rulebook, by PRA Rulebook: Solvency II Reform Instrument 2024 and PRA Rulebook: Solvency II Reporting Reform Instrument 2024.

Templates, Annexes and instruction documents

- E. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by “[here](#)”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- F. Other than the provisions listed in G, this instrument comes into force on 31 December 2024.
- G. Annex M comes into force on 2 January 2026.

Citation

- H. This instrument may be cited as the PRA Rulebook: Solvency II Instrument 2024.

By order of the Prudential Regulation Committee

5 November 2024

Annex A

Amendments to the Glossary Part

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

...

aggregate maximum risk exposure

means the sum of the maximum payments, including expenses that the *special purpose vehicle* may incur, excluding expenses that meet all of the following criteria:

- (1) the *special purpose vehicle* has the right to require the *undertaking* which has transferred risks to the *special purpose vehicle* to pay the expense; and
- (2) the *special purpose vehicle* is not required to pay the expense unless and until an amount equal to the expense has been received from the *undertaking* which has transferred the risks to the *special purpose vehicle*.

...

alternative valuation methods

means valuation methods that are consistent with the Valuation 2.1 and 2.2, other than those which solely use the quoted market prices for the same or similar assets or liabilities.

...

ancillary own funds

- (1) (in relation to a *UK Solvency II firm* and Lloyd's) has the meaning given in Own Funds 2.3 and are determined in accordance with Own Funds 2.3 to 2.7; or
- (2) (in relation to an *insurance holding company*) means an *own funds* item referred to in ~~Article 89 of the *Solvency II Directive*~~ Own Funds 2.3 and 2.4, determined in accordance with (1) as if it were a *UK Solvency II firm*; ~~or~~
- (3) ~~(in relation to a *third country branch undertaking*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*. [deleted]~~

ancillary own funds permission

means the permission granted to a *firm* by the PRA pursuant to section 138BA of FSMA for the purpose of allowing the *firm* to take into account an item of *ancillary own funds* as part of its *own funds*.

...

basic own funds

...

- (2) (in relation to an *insurance holding company*) means an *own funds* item referred to in ~~Article 88 of the *Solvency II Directive*~~ Own Funds 2.2, determined in accordance with (1) as if it were a *UK Solvency II firm*; ~~or~~

- (3) ~~(in relation to a *third country branch undertaking*) means an *own funds* item referred to in article 88 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*.~~~~[deleted]~~

basic SCR

~~means the minimum basic component of the SCR, as set out in~~calculated in accordance with Solvency Capital Requirement to – Standard Formula 3 and as supplemented by the Solvency II Regulations.

...

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* or *undertakings* to which it belongs, or of an *undertaking*, or *undertakings*, of the group of which that *UK Solvency II firm* is a member.

captive reinsurer

means a *UK Solvency II firm* that is a *pure reinsurer* 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 *reinsurance* cover exclusively for the risks of the *undertaking* or *undertakings* to which it belongs or of an *undertaking* or *undertakings* of the group of which that *pure reinsurer* is a member.

...

classification of own funds permission

means the permission granted to a *firm* by the PRA pursuant to section 138BA of FSMA for the purpose of allowing the *firm* to include in its *Tier 1 own funds*, *Tier 2 own funds* or *Tier 3 own funds* (as the case may be) an *own funds* item that is not included in the *own funds lists*.

...

earned premiums

means the *premiums* relating to the risk covered by a *firm* during a specified time period.

...

eligible own funds

...

- (3) as to compliance by a *composite firm* with the *notional life MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4, 4A.2 and 4A.3, as if references to the “MCR” in those provisions were references to the *notional life MCR*; ~~and the limits in the *Solvency II Regulations*; and~~

- (4) as to compliance by a *composite firm* with the *notional non-life MCR*, the aggregate of the *firm’s*:

- (a) *Tier 1 own funds*; and
- (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4.2, 4A.2 and 4A.3, as if references to the “MCR” in those provisions were references to the *notional non-life MCR*; ~~and the limits in the *Solvency II Regulations*.~~

- (5) ~~as to compliance with the *branch SCR*, means the aggregate of the *third country branch undertaking’s*:~~

- ~~(a) *Tier 1 own funds*; and~~
- ~~(b) (i) *Tier 2 own funds*; and~~
~~(ii) *Tier 3 own funds*~~

~~that satisfy the limits in Own Funds 4.1, as if references to the “SCR” in those provisions were references to the *branch SCR*; and the limits in the *Solvency II Regulations*.[deleted]~~

- (6) ~~as to compliance with the *branch MCR*, means the aggregate of the *third country branch undertaking’s*:~~

- ~~(a) *Tier 1 own funds*; and~~
- ~~(b) *Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2 as if references to the “MCR” in those provisions were references to the *branch MCR*; and the limits in the *Solvency II Regulations*.[deleted]~~

eligible Tier 2 own funds

- (1) as to compliance with a *UK Solvency II firm’s SCR*, the *UK Solvency II firm’s Tier 2 own funds* that satisfy the limits set out in Own Funds 4.1(1), 4A.1(1), 4A.1(3) and 4A.3~~and the *Solvency II Regulations*~~; and
- (2) as to compliance with a *UK Solvency II firm’s MCR*, the *firm’s Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2, 4A.2 and 4A.3~~and the *Solvency II Regulations*~~.

eligible Tier 3 own funds

means, as to compliance with a *UK Solvency II firm’s SCR*, the *firm’s Tier 3 own funds* that satisfy the limits set out in Own Funds 4.1(2) and 4A.1(2).

...

explicit maximum loss potential

means the maximum economic risk transferred by the ceding *undertaking* to the *reinsurer* under a *reinsurance contract*.

external credit assessment institution

means a *credit rating agency*, or a *central bank* issuing credit ratings which is exempt from the application of Regulation (EC) No 1060/2009 and which is included in a list of exempt *central banks* published by *Treasury* on its website.

...

finite reinsurancemeans reinsurance:

- (1) under which the explicit maximum loss potential arising from a significant transfer of both underwriting risk and timing risk exceeds the premium payable by the ceding undertaking over the duration of the contract by a limited but significant amount; and
- (2) which possesses at least one of the following characteristics:
 - (a) explicit and material consideration of the time value of money;
 - (b) contractual provisions to moderate the balance of economic experience between the parties to the reinsurance over time to achieve the target risk transfer.

...

health catastrophe risk

means the risk of loss, or of adverse change, in the value of insurance obligations resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.

health insurance obligationmeans an insurance obligation that covers one or both of the following:

- (1) the provision of medical treatment or care including preventive or curative medical treatment or care due to illness, accident, disability or infirmity, or financial compensation for such treatment or care; or
- (2) financial compensation arising from illness, accident, disability or infirmity.

health reinsurance obligation

means a reinsurance obligation which arises from accepted reinsurance covering health insurance obligations.

...

income protection insurance obligation

means an insurance obligation that covers the financial compensation referred to in (2) of the definition of health insurance obligation, other than the financial compensation referred to in (1) of the definition of health insurance obligation.

income protection reinsurance obligation

means a reinsurance obligation which arises from accepted reinsurance covering income protection insurance obligations.

...

infrastructure assets

means physical assets, structures or facilities, systems and networks that provide or support essential public services.

infrastructure entity

means an entity or corporate group which, during the most recent financial year of that entity or group for which figures are available or in a financing proposal, derives the substantial majority of its revenues from owning, financing, developing or operating infrastructure assets.

...

look-through approach

means the approach to calculating the SCR described in Solvency Capital Requirement – Standard Formula 2.3(1).

...

medical expense insurance obligation

means an insurance obligation that covers the provision or financial compensation referred to in (1) of the definition of *health insurance obligation*.

medical expense reinsurance obligation

means a *reinsurance* obligation which arises from accepted *reinsurance* covering *medical expense insurance obligations*.

...

mortgage insurance

means credit insurance that provides cover to lenders in case their mortgage loans default.

...

non-life catastrophe risk

means the risk of loss, or of adverse change in the value of insurance obligations, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

non-life premium and reserve risk

means the risk of loss, or of adverse change in the value of insurance obligations, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements.

...

NSLT health

means health *insurance business* that is not *SLT health*.

NSLT health premium and reserve risk

means the risk of loss, or of adverse change in the value of insurance obligations, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements at the time of provisioning.

...

OECD

means the Organisation for Economic Cooperation and Development.

...

own funds

...

- (2) (in relation to an *insurance holding company*) own funds determined in accordance with (1) as if it were a *UK Solvency II firm*; ~~or~~

- (3) ~~(in relation to a third country branch undertaking) the firm's aggregate basic own funds and ancillary own funds as determined in accordance with (1) as if it were a UK Solvency II firm.~~~~[deleted]~~

own funds lists

means the lists of Tier 1 own funds, Tier 2 own funds and Tier 3 own funds set out in Own Funds 3A, 3D, 3F, 3H, and 3J.

...

participation

...

(in the Solvency II Firms Sector of the PRA Rulebook) means:

- (1) the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking; or
- (2) ~~where, in accordance with the definition of 'participating undertaking' in Regulation 2(1) of the Solvency 2 Regulations, an undertaking which holds, directly or indirectly, voting rights or capital in another undertaking over which it effectively exercises a significant influence over another undertaking.~~

...

qualifying infrastructure corporate investment

means an investment in an infrastructure entity that meets all the requirements set out in Solvency Capital Requirement – Standard Formula 3D3.

qualifying infrastructure investment

means an investment in an infrastructure entity that meets all the requirements set out in Solvency Capital Requirement – Standard Formula 3D2.

...

related undertaking

means, in relation to an undertaking ('U')

- (1) any subsidiary undertaking of U; or
- (2) any undertaking in which U or any of U's subsidiary undertakings holds a participation;
or
- (3) any undertaking linked to U by a common management relationship; or
- (4) any undertaking linked by a common management relationship to an undertaking in (1), (2) or (3).

...

relevant legislation

...

means:

- (1) FSMA;
- (2) the Capital Requirements Regulations;
- (3) ~~the Solvency 2 Regulations 2015~~~~[deleted]~~;
- (4) any other enactment; or

(5) any EU regulation.

...

relevant risk-free interest rate term structure

means the relevant risk-free interest rate term structure, in accordance with:

- (1) Technical Provisions 5 and 8.3 to 8.4 and 8, Matching Adjustment Part, Technical Provisions – Further Requirements Part and Transitional Measures 10.2; and

...

restricted own funds

means *own funds* items that have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of transferability within the *firm* for any of the following reasons:

- (1) the items can only be used to cover losses on a defined portion of the *firm's contracts of insurance*;

- (2) the items can only be used to cover losses in respect of certain *policyholders*; or

- (3) the items can only be used to cover losses arising from particular risks or liabilities;

but does not include the value of future transfers attributable to shareholders.

...

ring-fenced fund

means an identifiable unit of assets and liabilities where the existence of a restriction on those assets in relation to those liabilities on a going concern basis gives rise to *restricted own funds*, other than a *matching adjustment portfolio*.

...

risk margin

means the portion of *technical provisions* calculated in accordance with Technical Provisions 4.1 to 4.24A and 4B.

...

scenario analysis

means the analysis of the impact of a combination of adverse events.

...

SLT health

means health *insurance business* that is pursued on a similar technical basis to that of *long-term insurance business*.

...

~~*Solvency 2 Regulations*~~

~~means the Solvency 2 Regulations 2015 (SI 2015/575).~~

...

~~*Solvency II regulations*~~

~~means the directly applicable EU Regulations adopted in accordance with the *Solvency II Directive*, as they have effect as *retained direct EU legislation* as at 31 December 2023.~~

...

spread risk

means:

- (1) the risk that a spread (that is, the difference in price or yield) between two variables will change; or
- (2) in the Solvency Capital Requirement - Standard Formula Part, the Solvency Capital Requirement - General Provisions Part and the *credit risk* definition: the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

...

surplus funds

means, in relation to a *with-profits fund*, accumulated profits which have not been made available for distribution to *policyholders* and which:

- (1) satisfy the criteria for classification as *Tier 1 own funds* set out in Own Funds 3.1, 3A and 3B; and
- (2) are represented by the output of the calculations set out in Surplus Funds 3.

...

surrender

means all possible ways to fully or partly terminate a *policy*, including the following:

- (1) voluntary termination of the *policy* with or without the payment of a surrender value;
- (2) change of *firm* by the *policyholder*; or
- (3) termination of the *policy* resulting from the *policyholder's* refusal to pay the *premium*.

...

Tier 1 own funds

means an item of *basic own funds* that satisfies the conditions in Own Funds 3.1, 3A and 3B.1 to 3B.13.

...

Tier 2 own funds

means an item of *own funds* that satisfies the conditions in:

- (1) Own Funds 3.2(1), Own Funds 3D and 3E.1 to 3E.5; or
- (2) Own Funds 3.2(2), Own Funds 3H and 3I.

Tier 3 own funds

means an item of *own funds* referred to in Own Funds 3.3 that satisfies the conditions in either:

- (1) Own Funds 3F and 3G.1 to 3G.5; or
- (2) Own Funds 3J.

...

undertaking specific parameters

means, for the purposes of determining the SCR using the *standard formula*, the replacement of a subset of parameters used in the ~~life underwriting risk module, non-life underwriting risk module or health underwriting risk module~~ with a parameters specific to a firm, calculated in accordance with Solvency Capital Requirement – Undertaking Specific Parameters, that replaces a standard parameter (within a subset of parameters in the *life underwriting risk module, non-life underwriting risk module or health underwriting risk module*).

...

USP firm

means a firm that has been granted a *USP Permission*.

USP method

in relation to a *USP firm*, means the method specified in Solvency Capital Requirement – Undertaking Specific Parameters 2.3 for calculating the *undertaking specific parameter* in respect of which the firm has been granted a *USP Permission*.

USP Permission

means the permission to apply an *undertaking specific parameter* granted to a firm by the PRA pursuant to section 138BA of FSMA.

volatility adjustment

means the adjustment to the *relevant risk-free interest rate term structure* used to calculate the *best estimate* in accordance with:

- (1) ~~Technical Provisions 8 and Technical Provisions – Further Requirements Part the Solvency II Regulations adopted under Article 86(1)(j) of the Solvency II Directive;~~ and

...

workers' compensation insurance obligation

means a *health insurance obligation* which arises only from accidents at work, industrial injury and occupational disease.

workers' compensation reinsurance obligation

means a *reinsurance obligation* which arises from accepted *reinsurance* covering *workers' compensation insurance obligations*.

...

Annex B**Amendments to the Actuaries Part**

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

...

2 APPOINTMENT OF ACTUARIES

- 2.1 A *firm* must appoint an external *actuary* if it does not have the capability within the *firm* or the *firm's group* to comply with Conditions Governing Business 6.1 ~~or the relevant requirements of the Solvency II Regulations.~~

...

Annex C

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:

...

~~explicit maximum loss potential~~

~~means the maximum economic risk transferred by the ceding undertaking to the reinsurer under a contract of reinsurance.~~

~~external credit assessment institution~~

~~means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009 or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.~~

~~[Note: Art. 13(40) of the Solvency II Directive]~~

~~finite reinsurance~~

~~means reinsurance:~~

~~(1) under which the explicit maximum loss potential arising from a significant transfer of both underwriting risk and timing risk exceeds the premium payable by the ceding undertaking over the duration of the contract by a limited but significant amount; and~~

~~(2) which possesses at least one of the following characteristics:~~

~~(a) explicit and material consideration of the time value of money;~~

~~(b) contractual provisions to moderate the balance of economic experience between the parties to the reinsurance over time to achieve the target risk transfer.~~

~~[Note: Art. 210(3) of the Solvency II Directive]~~

...

1A EXPERT JUDGEMENT

1A.1 Where a firm makes assumptions about rules relating to the valuation of assets and liabilities, technical provisions, own funds, SCR or MCR and the rules set out in the Investments Part, these assumptions must be based on the expertise of persons with relevant knowledge, experience and understanding of the risks inherent in the firm's insurance and reinsurance business.

1A.2 A firm must, taking due account of the principle of proportionality, ensure that internal users of the relevant assumptions are informed about their relevant content, their degree of reliability and their limitations. For that purpose, service providers to whom functions or activities have been outsourced must be considered to be internal users.

2 GENERAL GOVERNANCE REQUIREMENTS

2.1 A *firm* must ensure its *governing body* is ultimately responsible for the *firm's* compliance with the PRA rules, FSMA, and all applicable laws, rules, regulations and administrative provisions implementing the Solvency II Directive deriving from FSMA that apply to UK Solvency II firms.

[Note: Art. 40 of the Solvency II Directive]

2.2 ...

(3) The system of governance must include compliance with at least the following requirements laid down in:

- (a) written policy on risk-management in accordance with 2.5;
- (b) Chapters 2A~~3~~ to 7;
- (c) Insurance - Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4; ~~and~~
- (d) Insurance – Allocation of Responsibilities 4~~;~~
- (e) Chapters 11A to 11F;
- (f) risk-management system in accordance with 3.1;
- (g) compliance function in accordance with 4.1(2);
- (h) internal audit function in accordance with Chapter 5; and
- (i) actuarial function in accordance with Chapter 6.

...

2.4 A *firm* must:

- (1) establish, implement and maintain have-written policies and adequate procedures in relation to at least risk management, internal control, internal audit and, where relevant, outsourcing;
- (2) make those policies subject to prior approval of its *governing body*;
- (3) ensure those policies are implemented;
- (4) review those policies at least annually; and
- (5) adapt those policies in view of any significant change in the system or area concerned.

[Note: Art. 41(3) of the Solvency II Directive]

2.4A A *firm* must establish, implement and maintain documented policies and adequate procedures to ensure that all persons who effectively run the *firm* or have other key functions are at all times fit and proper within the meaning of Insurance - Fitness and Propriety 2.

2.5 The written ~~policy~~policies on risk-management referred to in 2.4(1) must ~~comprise~~include:

- (1) policies relating to the areas listed in points (i) to (vi) in 3.1(2)(c) as set out in further detail in 3.1A and Chapter 2A; and
- (2) where the *volatility adjustment* is applied, a policy on the criteria for the application of the *volatility adjustment*.

[Note: Art. 44(2) and (2a) of the Solvency II Directive]

...

2A SYSTEM OF GOVERNANCE

2A.1 A *firm* must ensure that:

- (1) the system of governance referred to at paragraph 2.2(1) establishes, implements and maintains effective cooperation, internal reporting and communication of information at all relevant levels of the *firm*;
 - (2) the system of governance referred to at paragraph 2.2(1) establishes, implements and maintains effective decision-making procedures and an organisational structure which clearly specifies reporting lines, allocates *functions* and responsibilities, and takes into account the nature, scale and complexity of the risks inherent in the *firm's* business;
 - (3) the members of the *governing body* collectively possess the necessary qualifications, competency, skills and professional experience in the relevant areas of the business in order to effectively manage and oversee the *firm* in a professional manner;
 - (4) each individual member of the *governing body* has the necessary qualifications, competency, skills and professional experience to perform the tasks assigned;
 - (5) it employs personnel with the skills, knowledge and expertise necessary to carry out the responsibilities allocated to them properly;
 - (6) all personnel of the *firm* are aware of the procedures for the proper carrying out of their responsibilities;
 - (7) the assignment of multiple tasks to individuals and organisational units does not or is not likely to prevent the *persons* concerned from carrying out any particular *function* in a sound, honest and objective manner;
 - (8) it establishes information systems which produce complete, reliable, clear, consistent, timely and relevant information concerning the business activities, the commitments assumed and the risks to which the *firm* is exposed;
 - (9) it maintains adequate and orderly records of the *firm's* business and internal organisation;
 - (10) it safeguards the security, integrity and confidentiality of information, taking into account the nature of the information in question;
 - (11) it introduces clear reporting lines that ensure the prompt transfer of information to all *persons* who need it in a way that enables them to recognise its importance as regards their respective responsibilities; and
 - (12) it adopts a written *remuneration* policy in accordance with Chapter 3A.
- 2A.2 A *firm* must ensure that its policies on risk-management, internal control, internal audit and, where relevant, *outsourcing*, referred to in 2.4(1) clearly set out the relevant responsibilities, objectives, processes and reporting procedures to be applied, all of which must be consistent with the *firm's* overall business strategy.
- 2A.3 A *firm* must establish, implement and maintain a business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, the preservation of essential data and *functions* and the maintenance of insurance and *reinsurance* activities, or, where that is not possible, the timely recovery of such data and *functions* and the timely resumption of their insurance or *reinsurance* activities.
- 2A.4 A *firm* must ensure that at least two natural *persons* effectively run the *firm*.
- 2A.5 A *firm* must ensure that effective processes and procedures are in place to prevent conflicts of interest and that potential sources of conflicts of interest are identified and procedures are established in order to ensure that those involved in the implementation of the *firm's* strategies and policies understand where conflicts of interest could arise and how such conflicts are to be addressed.

2A.6 A firm must monitor, and on a regular basis evaluate, the adequacy and effectiveness of its system of governance and take appropriate measures to address any deficiencies.

3 RISK MANAGEMENT

- 3.1 (1) A firm must ~~have in place~~ establish, implement, and maintain an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on a continuous basis the risks, at an individual and at an aggregated level, to which it is or could be exposed, and their interdependencies.

(1A) The risk-management system must include the following:

- (a) a clearly defined risk-management strategy which is consistent with the firm's overall business strategy. The objectives and key principles of the risk-management strategy, the approved risk tolerance limits and the assignment of responsibilities across all the activities of the firm must be documented;
- (b) a clearly defined procedure on the decision-making process;
- (c) written policies which effectively ensure the definition and categorisation of the material risks by type to which the firm is exposed, and the approved risk tolerance limits for each type of risk. Such policies must implement the firm's risk strategy, facilitate control mechanisms and take into account the nature, scope and time periods of the business and the associated risks; and
- (d) reporting procedures and processes which ensure that information on the material risks faced by the firm and the effectiveness of the risk-management system are actively monitored and analysed and that appropriate modifications to the system are made where necessary.

(2) That risk-management system must:

- (a) be effective and well integrated into the organisational structure and decision-making processes of the firm with proper consideration of the persons who have key functions;
- (b) cover the risks to be included in the calculation of the SCR as set out in Solvency Capital Requirement - General Provisions 3.3(1), as well as the risks which are not, or not fully, included in the calculation thereof; and
- (c) cover at least the following areas:
 - (i) underwriting and reserving as set out in 3.1A(1);
 - (ii) asset-liability management as set out in 3.1A(2);
 - (iii) investment risk management, in particular *derivatives*, *quasi-derivatives* and similar commitments, as set out in 3.1A(3);
 - (iv) *liquidity risk* and *concentration risk* management: as set out in 3.1A(4) and 3.1A(5);
 - (v) *operational risk* management; as set out in 3.1A(6); and
 - (vi) *reinsurance* and other *risk-mitigation techniques* as set out in 3.1A(7).

(2A) A firm must ensure that, where appropriate, the performance of stress tests and scenario analysis with regard to all relevant risks faced by the firm, is included in its risk-management system.

(2B) A firm must ensure that it takes into account the information reported as part of the risk-management system in its decision-making process.

- (3) Where a *firm* applies the *matching adjustment* or the *volatility adjustment* it must set up a liquidity plan projecting the incoming and outgoing cash-flows in relation to the assets and liabilities subject to those adjustments.
- (4) Where a *firm* applies the matching adjustment, the *firm* must manage any risks that are identified in the analysis undertaken in accordance with Matching Adjustment 10.1.

3.1A *A firm must ensure that the areas referred to in 3.1(2)(c) include all of the following policies:*

(1) Underwriting and reserving:

- (a) actions to be taken by the *firm* to assess and manage the risk of loss or of adverse change in the values of insurance and *reinsurance* liabilities, resulting from inadequate pricing and provisioning assumptions;
- (b) the sufficiency and quality of relevant data to be considered in the underwriting and reserving processes, as set out in Technical Provisions - Further Requirements 4 and their consistency with the standards of sufficiency and quality; and
- (c) the adequacy of claims management procedures including the extent to which they cover the overall cycle of claims.

(2) Asset-liability management:

- (a) the structural mismatch between assets and liabilities and in particular the duration mismatch of those assets and liabilities;
- (b) any dependency between risks of different asset and liability classes;
- (c) any dependency between the risks of different insurance or *reinsurance* obligations;
- (d) any off-balance sheet exposures of the *firm*; and
- (e) the effect of relevant *risk-mitigation techniques* on asset-liability management.

(3) Investment risk management:

- (a) actions to be taken by the *firm* to ensure that the *firm's* investments comply with the Investments Part;
- (b) actions to be taken by the *firm* to ensure that the *firm's* investments take into account the nature of the *firm's* business, its approved risk tolerance limits, its solvency position, its asset-liability management policy, and its long-term risk exposure;
- (c) the *firm's* own internal assessment of the *credit risk* of investment *counterparties*;
- (d) where the *firm* uses *derivatives* or any other financial instrument with similar characteristics or effects, the objectives of, and strategy underlying their use and the way in which they facilitate efficient portfolio management or contribute to a reduction of risks, as well as procedures to assess the risk of such financial instruments and the principles of risk-management to be applied to them; and
- (e) where appropriate in order to ensure effective risk-management, internal quantitative limits on assets and exposures, including off-balance sheet exposures.

(4) *Liquidity risk* management:

- (a) actions to be taken by the *firm* to take into account both short-term and long-term *liquidity risk*;
- (b) the appropriateness of the composition of the assets in terms of their nature, duration and liquidity in order to meet the *firm's* obligations as they fall due; and
- (c) a plan to deal with changes in expected cash in-flows and out-flows.

- (5) Concentration risk management: actions to be taken by the *firm* to identify relevant sources of *concentration risk* to ensure that risk concentrations remain within established limits and actions to analyse possible risks of contagion between concentrated exposures.
- (6) Operational risk management: actions to be taken by the *firm* to assign clear responsibilities to regularly identify, document and monitor relevant *operational risk* exposures.
- (7) Reinsurance and other insurance *risk-mitigation techniques*:
 - (a) actions to be taken by the *firm* to ensure the selection of suitable *reinsurance* and other *risk-mitigation techniques*;
 - (b) actions to be taken by the *firm* to assess which types of *risk-mitigation techniques* are appropriate according to the nature of the risks assumed and the capabilities of the *firm* to manage and control the risks associated with those techniques; and
 - (c) the *firm's* own assessment of the *credit risk* of the *risk-mitigation techniques*.
- (8) Deferred taxes:
 - (a) actions related to the *firm's* selection of methods and assumptions to demonstrate the amount and recoverability of the loss-absorbing capacity of deferred taxes;
 - (b) involvement of the relevant *key functions* in the selection and assessment of methods and assumptions to demonstrate the amount and recoverability of the loss-absorbing capacity of deferred taxes, how the outcome of that assessment is reported to the *governing body*, including the assessment of the underlying assumptions applied for the projection of future taxable profit (for the purposes of recognising and valuing deferred taxes and making an adjustment for the loss-absorbing capacity of deferred taxes), and an explanation of any concerns about those assumptions, which must be carried out in each case by either the actuarial *function* or the risk-management *function*; and
 - (c) risks that the *firm* is or could be exposed to, taking into account potential future changes in its risk profile due to its business strategy or the economic and financial environment, including *operational risks* and potential changes in its loss-absorbing capacity of deferred taxes. That assessment must include the overall reliance of the solvency and financial condition on deferred taxes and its consistency with the risk-management policy.

...

- 3.5 (1) A *firm* must provide for a risk-management *function* that is structured in such a way as to facilitate the implementation of the risk-management system.

[Note: Art. 44(4) of the *Solvency II Directive*]

- (2) The risk-management *function* referred to in 3.5(1) must undertake all of the following tasks:
 - (a) assisting the *governing body* and other *functions* in the effective operation of the risk-management system;
 - (b) monitoring the risk-management system;
 - (c) monitoring the general risk profile of the *firm* as a whole;
 - (d) detailed reporting on risk exposures and advising the *governing body* on risk-management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments; and
 - (e) identifying and assessing emerging risks.

(3) The risk-management *function* must fulfil all of the following requirements:

- (a) fulfil the requirements set out in 3.7;
- (b) liaise closely with the users of the outputs of the *internal model*; and
- (c) co-operate closely with the actuarial *function* referred to in Conditions Governing Business 6.

...

3.6A In addition to the requirements referred to in 3.6, for the purposes of the calculation of *technical provisions* and the *SCR*, a *firm* must ensure that its internal risk-management methodologies do not rely solely or automatically on external credit assessments. Where the calculation of *technical provisions* or of the *SCR* is based on external credit assessments by an *external credit assessment institution* or based on the fact that an exposure is unrated, that does not exempt a *firm* from additionally considering other relevant information.

3.6B For the purpose of assessing the appropriateness of external credit rating assessments used in the calculation of *technical provisions* and the *SCR* by way of additional assessments referred to in 3.6, a *firm* must include in its policy on risk-management the following:

- (1) the scope and frequency of the additional assessments;
- (2) the manner in which the additional assessments are carried out, including the assumptions on which they are based; and
- (3) the frequency of the regular review of the additional assessments and the conditions requiring an ad hoc review of the additional assessments.

3.6C A *firm* must ensure that its risk-management *function* covers the additional assessments in accordance with the risk-management policy referred to in 3.6B and duly considers the results of the additional assessments in the calculation of *technical provisions* and the *SCR*.

3.6D When carrying out the additional assessments referred to in 3.6B, a *firm* must use information that is derived from reliable sources that are up to date.

3.6E (1) In accordance with 2.4, a *firm* must at least annually review the additional assessments referred to in 3.6B.

- (2) A *firm* must review those additional assessments on an ad hoc basis, whenever any of the conditions under 3.6B(3) take place or if the assumptions on which those assessments are based, are no longer valid.

3.6F A *firm* must document the following:

- (1) the manner in which the additional assessments referred to in 3.6B are carried out and the results of those assessments; and
- (2) the extent to which the results of those additional assessments are taken into account in the calculation of *technical provisions* and the *SCR*.

...

3.8A

(1) A *firm* must ensure that the *ORSA* referred to in 3.8(1) is forward-looking and includes all of the following elements:

- (a) risks the *firm* is or could be exposed to, taking into account potential future changes in its risk profile due to its business strategy or the economic and financial environment, including *operational risks*; and

(b) the nature and quality of *own funds* items or other resources appropriate to cover the risks identified in 3.8A(1)(a).

(2) The elements referred to at 3.8A(1)(a) and (b) must take the following into account:

(a) the time periods that are relevant for taking into account the risks the *firm* faces in the long term;

(b) valuation and recognition bases that are appropriate for the *firm's* business and risk profile; and

(c) the *firm's* internal control and risk-management systems and approved risk tolerance limits.

...

3.11 A *firm* must inform the PRA of the results of each ORSA in the form of an ORSA report ~~as part of the information reported under Reporting 2~~ in accordance with Reporting 2.5A(2)(a).

[Note: Art. 45(6) of the *Solvency II Directive*]

3.12 The ORSA report referred to at 3.11 must include all of the following:

(1) the qualitative and quantitative results of the ORSA and the conclusions drawn by the *firm* from those results;

(2) the methods and main assumptions used in the ORSA;

(3) the information referred to at 3.8(2)(a) and a comparison between those solvency needs, the regulatory capital requirements and the *firm's own funds*; and

(4) qualitative information on, and where significant deviations have been identified a quantification of, the extent to which quantifiable risks of the *firm* are not reflected in the calculation of the SCR.

3A REMUNERATION POLICY

3A.1 When establishing and implementing the *remuneration* policy referred to in 2A.1(12), a *firm* must comply with all of the following principles:

(1) the *remuneration* policy and *remuneration* practices must be established, implemented and maintained in line with the *firm's* business and risk-management strategy, its risk profile, objectives, risk-management practices and the long-term interests and performance of the *firm* as a whole and must incorporate measures aimed at avoiding conflicts of interest;

(2) the *remuneration* policy must promote sound and effective risk-management and must not encourage risk-taking that exceeds the risk tolerance limits of the *firm*;

(3) the *remuneration* policy must apply to the *firm* as a whole, and contain specific arrangements that take into account the tasks and performance of the *governing body*, *persons* who effectively run the *firm* or have other *key functions* and other categories of *employees* whose professional activities have a material impact on the *firm's* risk profile;

(4) the *firm* must ensure that it establishes general principles for the *remuneration* of those categories of *employees* whose professional activities have a material impact on the *firm's* risk profile and that it oversees implementation of those general principles;

(5) there must be clear, transparent and effective governance with regard to *remuneration*, including the oversight of the *remuneration* policy;

(6) an independent *remuneration* committee must be created, if appropriate in relation to the significance of the *firm* in terms of size and internal organisation, in order to periodically

support the *governing body* in overseeing the design of the *remuneration* policy and *remuneration* practices, their implementation and operation; and

(7) the *remuneration* policy must be disclosed to each of the *firm's employees*.

3A.2 A *firm* must ensure that the specific arrangements referred to in 3A.1(3) comply with all of the following principles:

- (1) where *remuneration* schemes include both fixed and variable components, such components must be balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total *remuneration* to avoid *employees* being overly dependent on the variable components and to allow the *firm* to operate a fully flexible bonus policy, including the possibility of paying no variable component;
- (2) where variable *remuneration* is performance-related, the total amount of the variable *remuneration* is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall result of the *firm* or the *group* to which the *firm* belongs;
- (3) the payment of a substantial portion of the variable *remuneration* component, irrespective of the form in which it is to be paid, must:
 - (a) contain a flexible, deferred component that takes account of the nature and time horizon of the *firm's* business; and
 - (b) that deferral period must not be less than three years and the period must be correctly aligned with the nature of the business, its risks, and the activities of the *employees* in question;
- (4) financial and also non-financial criteria must be taken into account when assessing an individual's performance;
- (5) the measurement of performance, as a basis for variable *remuneration*, must include a downwards adjustment for exposure to current and future risks, taking into account the *firm's* risk profile and the cost of capital;
- (6) termination payments must be related to performance achieved over the whole period of activity and be designed in a way that does not reward failure;
- (7) *persons* subject to the *remuneration* policy must commit to not using any personal hedging strategies or *remuneration* and liability-related insurance which would undermine the risk alignment effects embedded in their *remuneration* arrangement; and
- (8) the variable part of *remuneration* of the *employees* engaged in the internal control, risk-management, compliance, internal audit, and actuarial *functions* and those business units referred to in 11A to 11F must be independent from the performance of the operational units and areas that are submitted to their control.

3A.3 A *firm* must ensure that the *remuneration* policy is designed in such a way as to take into account the internal organisation of the *firm*, and the nature, scale and complexity of the risks inherent in its business.

4 INTERNAL CONTROL

- 4.1
- (1) A *firm* must have in place an effective internal control system.
 - (2) That internal control system must include:
 - (a) administrative and accounting procedures;
 - (b) an internal control framework;

- (c) appropriate reporting arrangements at all levels of the *firm*; and
- (d) a compliance *function*.

[Note: Art. 46(1) of the *Solvency II Directive*]

- (3) A *firm* must ensure that its internal control system ensures:
 - (a) the *firm*'s compliance with applicable laws, regulations and administrative provisions;
 - (b) the effectiveness and the efficiency of the *firm*'s operations in light of its objectives;
 - and
 - (c) the availability and reliability of financial and non-financial information.

4.1A

- (1) A *firm* must ensure that the compliance *function* required by 4.1(2)(d) establishes a compliance policy and a compliance plan.
- (2) That compliance policy must define the responsibilities, competencies and reporting duties of the compliance *function*.
- (3) That compliance plan must set out the planned activities of the compliance *function* which must take into account all relevant areas of the *firm*'s activities and its exposure to compliance risk.

4.2 The duties of the compliance *function* referred to in ~~4.1(2)~~4.1A(1) must include:

- (1) advising the *governing body* on compliance with ~~the~~all of its obligations under *PRA* rules and *FSMA* and any other laws, rules, regulations and administrative provisions deriving from *FSMA* that apply to UK *Solvency II firms*implementing the *Solvency II Directive*; and
- (1A) assessing the adequacy of the measures adopted by the *firm* to prevent non-compliance;
- and
- (2) an assessment of the possible impact of any changes in the legal environment on the operations of the *firm* concerned and the identification and assessment of compliance risk.

[Note: Art. 46(2) of the *Solvency II Directive*]

...

4A SPECIFIC PROVISIONS - FUNCTIONS

- 4A.1 A *firm* must incorporate the *functions* and the associated reporting lines into its organisational structure in a way which ensures that each *function* is free from influences that may compromise the *function*'s ability to undertake its duties in an objective, fair and independent manner.
- 4A.2 A *firm* must ensure that each *function* operates under the ultimate responsibility of, and reports to the *governing body* and must, where appropriate, co-operate with the other *functions* in carrying out their roles.
- 4A.3 A *firm* must ensure that any *person* performing a *function* is able to communicate at their own initiative with any *employee* and must have the necessary authority, resources and expertise, as well as unrestricted access to all relevant information necessary to carry out their responsibilities.
- 4A.4 A *firm* must ensure that any *person* performing a *function* promptly reports any major problem in their area of responsibility to the *governing body*.

5 INTERNAL AUDIT

...

5.2 A firm must ensure that the internal audit *function* referred to in 5.1 includes all of the following tasks:

- (1) establishes, implements and maintains an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of the *firm*;
- (2) takes a risk-based approach in deciding its priorities;
- (3) reports the audit plan to the *governing body*;
- (4) issues recommendations based on the result of work carried out in accordance with 5.2(1) and submits a written report on its findings and recommendations to the *governing body* on at least an annual basis; and
- (5) verifies compliance with the decisions taken by the *governing body* on the basis of those recommendations referred to in 5.2(4).

5.3 A firm must ensure that any *person* carrying out the internal audit *function* does not assume responsibility for any other *function*.

5.4 Notwithstanding 5.3, and in particular by respecting the principle of proportionality, a *firm* may allow the *persons* carrying out the internal audit *function* to carry out other *key functions*, where all of the following conditions are met:

- (1) this is appropriate with respect to the nature, scale and complexity of the risks inherent in the *firm's* business;
- (2) no conflict of interest arises for the *persons* carrying out the internal audit *function*; and
- (3) the costs of maintaining *persons* for the internal audit *function* that do not carry out other *key functions* would impose costs on the *firm* that would be disproportionate with respect to the total administrative expenses.

6 ACTUARIAL FUNCTION

...

6.2 A firm must provide for an actuarial *function* that, in coordinating the calculation of the *technical provisions*, includes all of the following tasks:

- (1) applies methodologies and procedures to assess the sufficiency of *technical provisions* and to ensure that their calculation is consistent with the requirements set out in the Technical Provisions Part and the Valuation Part;
- (2) assesses the uncertainty associated with the estimates made in the calculation of *technical provisions*;
- (3) ensures that any limitations of data used to calculate *technical provisions* are properly dealt with;
- (4) ensures that the most appropriate approximations for the purposes of calculating the *best estimate* are used in cases referred to in Technical Provisions 12.2;
- (5) ensure that homogeneous risk groups of insurance and *reinsurance* obligations are identified for an appropriate assessment of the underlying risks;

- (6) consider relevant information provided by financial markets and generally available data on *underwriting risks* and ensure that it is integrated into the assessment of *technical provisions*;
 - (7) compare and justify any material differences in the calculation of *technical provisions* from year to year; and
 - (8) ensure that an appropriate assessment is provided of options and guarantees included in *contracts of insurance*.
- 6.3 A firm must ensure that the actuarial *function* assesses whether the methodologies and assumptions used in the calculation of the *technical provisions* are appropriate for the specific *lines of business* of the *firm* and for the way the business of the *firm* is managed, having regard to the available data.
- 6.4 A firm must ensure that the actuarial *function* assesses whether the information technology systems used in the calculation of *technical provisions* sufficiently support the actuarial and statistical procedures.
- 6.5 (1) A firm must ensure that the actuarial *function*, when comparing *best estimates* against experience, reviews the quality of past *best estimates* and uses the insights gained from this assessment to improve the quality of current calculations.
- (2) That comparison of *best estimates* against experience must include comparisons between observed values and the estimates underlying the calculation of the *best estimate*, in order to draw conclusions on the appropriateness, accuracy and completeness of the data and assumptions used, as well as on the methodologies applied in the *firm's* calculations.
- 6.6 A firm must ensure that:
- (1) information submitted to the *governing body* on the calculation of the *technical provisions* includes at least a reasoned analysis on the reliability and adequacy of its calculations and on the sources and the degree of uncertainty of the estimate of the *technical provisions*;
 - (2) the analysis referred to at 6.6(1) is supported by a sensitivity analysis that includes an investigation of the sensitivity of the *technical provisions* to each of the major risks underlying the obligations which are covered in the *technical provisions*; and
 - (3) the actuarial *function* clearly states and explains any concerns it may have concerning the adequacy of *technical provisions*.
- 6.7. A firm must ensure that the opinion on the overall underwriting policy to be expressed by the actuarial *function* referred to in 6.1(1)(g) at least includes conclusions regarding the following considerations:
- (1) sufficiency of the *premiums* to be earned to cover future claims and expenses, notably taking into consideration the underlying risks (including *underwriting risks*), and the impact of options and guarantees included in *contracts of insurance* on the sufficiency of *premiums*;
 - (2) the effect of inflation, legal risk, change in the composition of the *firm's* portfolio, and of systems which adjust the *premiums* that *policyholders* pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups; and
 - (3) the progressive tendency of a portfolio of *contracts of insurance* to attract or retain *policyholders* with a higher risk profile (anti-selection).
- 6.8 A firm must ensure that the opinion on the adequacy of *reinsurance* arrangements to be expressed by the actuarial *function* in accordance with 6.1(1)(h) includes analysis on the adequacy of the following:

- (1) the firm's risk profile and underwriting policy;
- (2) reinsurance providers taking into account their credit standing;
- (3) the expected cover under stress scenarios in relation to the underwriting policy; and
- (4) the calculation of the amounts recoverable from reinsurance contracts and special purpose vehicles.

6.9

- (1) A firm must ensure that the actuarial function produces a written report to be submitted to the governing body, at least annually.
- (2) The report referred to at 6.9(1) must:
 - (a) document all tasks that have been undertaken by the actuarial function and their results; and
 - (b) clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

7 OUTSOURCING

- 7.1 If a firm outsources a function or any insurance or reinsurance activity, it remains fully responsible for discharging all of its obligations under the PRA rules and, FSMA and any other laws, rules, regulations and administrative provisions adopted in accordance with the Solvency II Directive deriving from FSMA that apply to UK Solvency II firms.

[Note: Art. 49(1) of the Solvency II Directive]

- 7.1A A firm which outsources or proposes to outsource a function or an insurance or reinsurance activity to a service provider must establish a written outsourcing policy which takes into account the impact of outsourcing on its business and the reporting and monitoring arrangements to be implemented in cases of outsourcing.

- 7.2 A firm must not outsource a critical or important operational function or activity in such a way as to lead to any of the following:
- (1) materially impairing the quality of the firm's system of governance;
 - (2) unduly increasing the operational risk;
 - (3) impairing the ability of the supervisory authorities to monitor the firm's compliance with its obligations; or
 - (4) undermining continuous and satisfactory service to policyholders.

[Note: Art. 49(2) of the Solvency II Directive]

- 7.2A Where the firm and the service provider are members of the same group, the firm must, when outsourcing any critical or important operational functions or activities, take into account the extent to which the firm controls the service provider or has the ability to influence its actions.

- 7.3 A firm must, in a timely manner, notify the PRA prior to the outsourcing of critical or important functions or activities as well as of any subsequent material developments with respect to those functions or activities.

[Note: Art. 49(3) of the Solvency II Directive]

- 7.4 Without prejudice to 7.1 to 7.3, a firm outsourcing a function or an insurance or reinsurance activity must take the necessary steps to ensure that the following conditions are satisfied:

- (1) the service provider must co-operate with the *PRA* and, where relevant, any other *supervisory authority* of the *firm* in connection with the *function* or activity that is the subject of the *outsourcing*;
- (2) the *firm*, its auditors, the *PRA* and, where relevant, any other *supervisory authority* of the *firm* must have effective access to data related to the *functions* or activities that are the subject of the *outsourcing*; and
- (3) the *PRA* and, where relevant, any other *supervisory authority* of the *firm* must have effective access to the business premises of the service provider and must be able to exercise those rights of access.

[Note: Art. 38(1) of the *Solvency II Directive*]

7.5 When choosing a service provider for any critical or important operational *functions* or activities, a *firm* must ensure that:

- (1) a detailed examination is performed to ensure that the potential service provider has the ability, capacity, and any authorisation required by law to deliver the required *functions* or activities satisfactorily, taking into account the *firm's* objectives and needs;
- (2) the service provider has adopted all means to ensure that no actual or potential conflict of interests jeopardizes the fulfilment of the needs of the *firm*;
- (3) a written agreement is entered into between the *firm* and the service provider which clearly defines the respective rights and obligations of that *firm* and the service provider;
- (4) the general terms and conditions of the *outsourcing* agreement are clearly explained to, and authorised by, the *firm's* governing body;
- (5) the *outsourcing* does not entail the breaching of any applicable laws or regulatory requirements, in particular with regard to data protection; and
- (6) the service provider is subject to the same conditions on the safety and confidentiality of information relating to the *firm* or to its *policyholders* that are applicable to that *firm*.

7.6 A *firm* must ensure that the terms and conditions of the written agreement referred to in 7.5(3) are consistent with the *firm's* obligations as provided for in 7.1, 7.2 and 7.2A.

7.7 The written agreement referred to in 7.5(3) must clearly state all of the following requirements:

- (1) the duties and responsibilities of both parties involved;
- (2) the service provider's commitment to comply with all applicable laws, regulatory requirements and guidance, as well as policies approved by the *firm*, and to co-operate with the *PRA* with regard to the *outsourced function* or activity;
- (3) the service provider's obligation to disclose any development which may have a material impact on its ability to carry out the *outsourced functions* and activities effectively and in compliance with applicable laws and regulatory requirements;
- (4) a notice period for the termination of the contract by the service provider which is long enough to enable the *firm* to find an alternative solution;
- (5) that the *firm* is able to terminate the arrangement for *outsourcing* where necessary without detriment to the continuity and quality of its provision of services to *policyholders*;
- (6) that the *firm* reserves the right to be informed about the *outsourced functions* and activities and their performance by the services provider as well as a right to issue general guidelines and individual instructions at the address of the service provider, as to what has to be taken into account when performing the *outsourced functions* or activities;

- (7) that the service provider must protect any confidential information relating to the *firm* and its *policyholders, employees, contracting parties* and all other *persons*;
- (8) that the *firm*, its external auditor and the *PRA* have effective access to all information relating to the *outsourced functions* and activities including carrying out on-site inspections of the business premises of the service provider;
- (9) that, where appropriate and necessary for the purposes of supervision, the *PRA* may address questions directly to the service provider to which the service provider must reply;
- (10) that the *firm* may obtain information about the *outsourced* activities and may issue instructions concerning the *outsourced* activities and *functions*;
- (11) the terms and conditions, where applicable, under which the service provider may sub-outsource any of the *outsourced functions* and activities; and
- (12) that the service provider's duties and responsibilities deriving from its written agreement with the *firm* must remain unaffected by any sub-outsourcing taking place.

7.8 A *firm* that is *outsourcing* critical or important operational *functions* or activities must fulfil all of the following requirements:

- (1) ensure that relevant aspects of the service provider's risk-management and internal control systems are adequate to ensure compliance with 7.2(1) and (2);
- (2) adequately take account of the *outsourced* activities in its risk-management and internal control systems to ensure compliance with 7.2(1) and (2);
- (3) verify that the service provider has the necessary financial resources to perform the additional tasks in a proper and reliable way, and that all personnel of the service provider who will be involved in providing the *outsourced functions* or activities are sufficiently qualified and reliable; and
- (4) ensure that the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary, taking into account the *outsourced functions* and activities.

...

11 STATISTICAL DATA

11.1 [Deleted]

11A ALTERNATIVE METHODS FOR VALUATION

11A.1 Where *alternative valuation methods* are used, a *firm* must:

- (1) identify the assets and liabilities to which that valuation approach applies;
- (2) justify the use of that valuation approach for the assets and liabilities referred to in 11A.1(1);
- (3) document the assumptions underlying that valuation approach;
- (4) assess the valuation uncertainty of the assets and liabilities referred to in 11A.1(1); and
- (5) regularly compare the adequacy of the valuation of the assets and liabilities referred to in 11A.1(1) against experience.

11B VALUATION OF TECHNICAL PROVISIONS — VALIDATION

11B.1

- (1) A firm must validate the calculation of *technical provisions*, in particular by comparison against experience as referred to in 4.4 and Technical Provisions 13, at least once a year and when there are indications that the data, assumptions or methods used in the calculation or the level of the *technical provisions* are no longer appropriate.
- (2) The validation referred to in 11B.1(1) must cover the following:
 - (a) the appropriateness, completeness and accuracy of data used in the calculation of *technical provisions* as set out in Technical Provisions - Further Requirements 4;
 - (b) the appropriateness of any grouping of policies in accordance with Technical Provisions - Further Requirements 19;
 - (c) the remedies to limitations of the data referred to in Technical Provisions - Further Requirements 5;
 - (d) the appropriateness of approximations referred to in Technical Provisions - Further Requirements 6 for the purposes of calculating the *best estimate*;
 - (e) the adequacy and realism of assumptions used in the calculation of *technical provisions* for the purposes of meeting the requirements in Technical Provisions - Further Requirements 7 to 11;
 - (f) the adequacy, applicability and relevance of the actuarial and statistical methods applied in the calculation of *technical provisions*; and
 - (g) the appropriateness of the level of the *technical provisions* as referred to in Chapter 14 of the Technical Provisions Part necessary to comply with the *firm's technical provisions* as set out in Technical Provisions 2.1 to 2.3.

11B.2 For the purposes of 11B.1(2)(d), a firm must assess the impact of changes in the assumptions on future management actions on the valuation of the *technical provisions*. Where changes in an assumption on future management action have a significant impact on the *technical provisions*, a firm must be able to explain the reasons for this impact and how the impact is taken into account in its decision-making process.

11B.3 A firm must ensure that the validation referred to in 11B.1(1) is:

- (1) carried out separately for homogeneous risk groups.
- (2) carried out separately for the *best estimate*, the *risk margin* and *technical provisions* calculated according to the market value of financial instruments which reliably replicate future cash-flows in accordance with Technical Provisions - Further Requirements 22.
- (3) carried out separately for *technical provisions* where the *matching adjustment* is applied.
- (4) in relation to the *best estimate*, carried out separately for the *gross best estimate* and amounts recoverable from *reinsurance* contracts and *special purpose vehicles*.
- (5) in relation to *general insurance and reinsurance obligations*, carried out separately for *premium* provisions and provisions for claims outstanding.

11C VALUATION OF TECHNICAL PROVISIONS — DOCUMENTATION

11C.1 A firm must ensure that it documents the following processes:

- (1) the collection of data and analysis of its quality and other information that relates to the calculation of *technical provisions*;
- (2) the choice of assumptions used in the calculation of *technical provisions*, in particular the choice of relevant assumptions about the allocation of expenses;

- (3) the selection and application of actuarial and statistical methods for the calculation of *technical provisions*; and
- (4) the validation of *technical provisions*.

11C.2 For the purposes of 11C.1(1), the *firm* must ensure that the documentation includes:

- (1) a directory of the data used in the calculation of the *technical provisions*, specifying their source, characteristics and usage;
- (2) the specification for the collection, processing and application of data referred to in Technical Provisions - Further Requirements 4.3(5); and
- (3) where data is not used consistently over time in the calculation of *technical provisions*, a description of the inconsistent use and its justification.

11C.3 For the purposes of 11C.1(2), a *firm* must ensure that the documentation includes:

- (1) a directory of all the relevant assumptions that the calculation of *technical provisions* is based upon; this must include assumptions on future management actions;
- (2) a justification for the choice of the assumptions underlying the calculation of *technical provisions*;
- (3) a description of the inputs on which the choice is based;
- (4) the objectives of the choice and the criteria used for determining the appropriateness of this choice;
- (5) any material limitations in the choice made;
- (6) a description of the processes in place to review the choice of assumptions;
- (7) a justification for the changes of assumptions from one period to another and an estimation of the impact of material changes; and
- (8) the relevant deviations from assumptions about future management actions referred to in Technical Provisions - Further Requirements 8.2.

11D INTERNAL CONTROL OF VALUATION OF ASSETS AND LIABILITIES

11D.1 A *firm* must have:

- (1) effective systems and controls to ensure that valuation estimates of their assets and liabilities are reliable and appropriate to ensure compliance with the Valuation Part; and
- (2) a process for regularly verifying that market prices or valuation model inputs are appropriate and reliable.

11D.2 A *firm* must establish, implement, maintain, and document clearly defined policies and procedures for the process of valuation, including the description and definition of roles and responsibilities of the personnel involved with the valuation, the relevant models, and the sources of information to be used.

11D.3 A *firm* must be able to, upon request by the *PRA*, undertake an external, independent valuation or verification of the value of material assets and liabilities.

11D.4 A *firm* must fulfil all of the following requirements:

- (1) provide sufficient resources, both in terms of quality and quantity, to develop, calibrate, approve and review valuation approaches used for solvency purposes;
- (2) establish internal control processes which include all of the following:

(a) an independent review and verification on a regular basis of the information, data, and assumptions which are used in the valuation approach, its results, and the suitability of the valuation approach with respect to valuation of the items referred to in 11A.1(1); and

(b) oversight by the *persons* who effectively run the *firm* of the internal processes for approval of those valuations and the process in place to take account of any external, independent valuation or verification of the value of material assets or liabilities.

11E RISK MANAGEMENT IN FIRMS PROVIDING LOANS AND/OR MORTGAGE INSURANCE OR REINSURANCE

11E.1 Where a *firm* engages in the activity of providing loans, it must ensure that it has written policies to ensure all of the following:

- (1) that credit-granting is based on sound and well-defined criteria and that the process for approving, amending, renewing and refinancing credits is clearly established;
- (2) that the *firm* has internal methodologies that enables it to assess the *credit risk* of exposures to individual obligors and at the portfolio level;
- (3) that the ongoing administration and monitoring of the loan portfolios, including for identifying and managing problematic credits, and for making adequate value adjustments, is operated through effective systems; and
- (4) that the diversification of the loan portfolios is adequate given the target markets and overall investment strategy of the *firm*.

11E.2 Where a *firm* engages in *mortgage insurance* (including *reinsurance*), it must base its underwriting on sound and well-defined criteria and comply with the requirements referred to in 11E.1 (2), (3) and (4) with regard to the mortgage loans underlying its insurance and *reinsurance* obligations.

11F RISK MANAGEMENT FOR QUALIFYING INFRASTRUCTURE INVESTMENTS OR QUALIFYING INFRASTRUCTURE CORPORATE INVESTMENTS

11F.1 A *firm* must conduct adequate due diligence prior to making a *qualifying infrastructure investment* or a *qualifying infrastructure corporate investment*, including all of the following:

- (1) a documented assessment of how the *infrastructure entity* satisfies the criteria set out in Solvency Capital Requirement – Standard Formula 3D2 and 3D3, which has been subject to a validation process, carried out by *persons* that are free from influence from those *persons* responsible for the assessment of the criteria, and have no potential conflicts of interest with those *persons*; and
- (2) a confirmation that any financial model for the cash-flows of the *infrastructure entity* has been subject to a validation process carried out by *persons* that are free from influence from those *persons* responsible for the development of the financial model and have no potential conflicts of interest with those *persons*.

11F.2 A *firm* with a *qualifying infrastructure investment* or a *qualifying infrastructure corporate investment* must regularly monitor and perform stress tests on the cash-flows and collateral values supporting the *infrastructure entity*. Any stress tests must be commensurate with the nature, scale and complexity of the risk inherent in the infrastructure project.

11F.3 A *firm* should ensure that the stress testing considers risks arising from non-infrastructure activities, but the revenues generated by such activities must not be taken into account when determining whether the *infrastructure entity* is able to meet its financial obligations.

11F.4 Where a firm holds material *qualifying infrastructure investments* or *qualifying infrastructure corporate investments*, it must, when establishing the written procedures referred to in 2.4(1) include provisions for an active monitoring of such investments during the construction phase, and for a maximisation of the amount covered from such investments in case of a work-out scenario.

11F.5 A firm with a *qualifying infrastructure investment* or a *qualifying infrastructure corporate investment* in bonds or loans must set up its asset-liability management to ensure that, on an ongoing basis, it is able to hold the investment to maturity.

...

Annex D

Amendments to the External Audit Part

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

1 APPLICATION AND DEFINITIONS

...

1.3 In this Part, the following definitions shall apply:

...

~~group supervisor~~

~~means the PRA in accordance with regulation 26 of The Solvency 2 Regulations.~~

...

4 DUTIES ON THE EXTERNAL AUDITOR

4.1 ...

- (2) produce a report that includes an opinion addressed to the *governing body* confirming that the *relevant elements of the SFCR* are prepared in all material respects in accordance with the *PRA rules and Solvency II Regulations* on which it is based;

...

4.2 ...

- (2) information has been prepared in accordance with:

- (a) *PRA rules other than the Reporting Part* ~~those implementing the Solvency II Directive~~;
or

- (b) *UK law other than law deriving from FSMA that applies to UK Solvency II firms* ~~the Solvency II Regulations~~,

...

Annex E

Amendments to the Financial Conglomerates Part

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

1 APPLICATION AND DEFINITIONS

...

1.4

...

~~delegated acts~~

means ~~Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as it has effect as retained direct EU legislation as at 31 December 2023.~~

...

sectoral rules

means, in relation to a *financial sector*, the following rules and requirements relating to the prudential supervision of *regulated entities* within that *financial sector*.

...

- (6) references to the *PRA's* sectoral rules are to sectoral rules in the form of rules, and as applicable, the *CRR*, and ~~delegated acts~~.

...

Annex 2 - Capital Adequacy Calculations for Financial Conglomerates

...

6 Table: PART 4: Definitions used in this Annex

...

Solo capital resources requirement: insurance sector	6.4	(1)	The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>insurance sector</i> is:	
			(d)	in respect of any <i>undertaking</i> which is not within (a) to (c), the capital resources requirement calculated according to the rules for the calculation of the solo capital resources requirement applicable to that <i>undertaking</i> for the purposes of the calculation referred to in Group Supervision and Chapter I of Title II of the delegated acts or, if no rules are applicable for that calculation under Group Supervision and Chapter I of Title II of the delegated acts , in accordance

				with the <i>SCR Rules</i> .
...				

...

Annex F

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:

...

group specific parameter

means, for the purposes of determining the group SCR using the standard formula, a parameter specific to a group, calculated in accordance with Group Supervision 11A, that replaces a standard parameter (within a subset of parameters in the life underwriting risk module, non-life underwriting risk module or health underwriting risk module).

...

GSP firm

means a firm that has been granted a GSP Permission.

GSP method

means the method for calculating the group specific parameter in respect of which the firm has been granted a GSP Permission, determined in accordance with 11A.

GSP Permission

means the permission to apply a group specific parameter granted to a firm by the PRA pursuant to section 138BA of FSMA.

...

~~related undertaking~~

~~means, in relation to an undertaking ("U"):~~

~~(1) any subsidiary undertaking of U; or~~

~~(2) any undertaking in which U or any of U's subsidiary undertakings holds a participation; or~~

~~(3) any undertaking linked to U by a common management relationship; or~~

~~(4) any undertaking linked by a common management relationship to an undertaking in (1), (2) or (3).~~

...

4 GROUP SOLVENCY: GENERAL PROVISIONS

...

4.4 ...

- (3) take the measures necessary to achieve, within six months (or such longer period as the group is permitted by the PRA pursuant to section 138A or 138BA of FSMA as the case may determine) from the observation of non-compliance with the group SCR, the

re-establishment of the level of *eligible own funds* covering the *group SCR* or the reduction of the risk profile to ensure compliance with the *group SCR*; and

- (4) ~~if the PRA has extended the period referred to in (3) by reason of the declaration:~~
- (a) ~~(before IP completion day) by EIOPA; or [deleted]~~
 - (b) ~~(on or after IP completion day) by the PRA pursuant to regulation 4A of the Solvency 2 Regulations; [deleted]~~

if the PRA has extended the period referred to in (3) by reason of the declaration by the PRA of an exceptional adverse situation affecting the group, submit a progress report to the PRA every three months setting out the measures taken and the progress made to re-establish the level of own funds covering the group SCR or to reduce the risk profile to ensure compliance with the group SCR.

...

5 GROUP SOLVENCY: FREQUENCY OF CALCULATIONS

...

5.2 ...

- (3) ~~Upon request by the group supervisor, where there is evidence to suggest that the risk profile of the group has altered significantly since the date on which the group Solvency Capital Requirement was last reported, the group SCR must be recalculated without delay and reported to the group supervisor. [Deleted]~~

5.2A Where there is evidence to suggest that the risk profile of the group has altered significantly since the date on which the group SCR was last reported, relevant insurance group undertakings must be able to, upon request by the group supervisor, recalculate the group SCR without delay and report it to the group supervisor.

5.3 ...

- (3) ~~Upon request by the group supervisor, where there is evidence to suggest that the risk profile of the group has altered significantly since the date on which the group Solvency Capital Requirement was last reported, the group SCR must be recalculated without delay and reported to the group supervisor. [Deleted]~~

5.4 Where there is evidence to suggest that the risk profile of the group has altered significantly since the date on which the group SCR was last reported, relevant insurance group undertakings must be able to, upon request by the group supervisor, recalculate the group SCR without delay and report it to the group supervisor.

6 GROUP SOLVENCY: NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS BY GROUP MEMBER

6.1 ...

- (2) This Chapter does not apply in respect of the following:
- (a) any item which a *firm* intends to include within the *basic own funds* forming the *own funds eligible for the group SCR* of the *firm's group* that is not covered by the lists of *own funds* items set out in ~~the own funds lists the Solvency II Regulations~~, but which may be included in the *basic own funds* forming the *own funds eligible for the group*

SCR only if the *firm* has received a classification of own funds permission from the PRA's approval; and

...

6.2 ...

(2) When giving notice, a *firm* must:

...

- (g) for any item referred to in Own Funds 4A.3(1) ~~Article 82(3) of the delegated act (including after IP completion day the relevant national law provision)~~, provide a draft of a properly reasoned independent accounting opinion from an appropriately qualified individual as to the item's treatment in the financial statements of the *group* member issuing the proposed item and of the *group*;

...

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

...

- 9.6 Any *eligible own funds* of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated that are subject to ~~prior authorisation~~ permission from the *supervisory authority* of the *related Solvency II undertaking*, by an ancillary own funds permission or in accordance with ~~regulation 44 of the Solvency 2 Regulations or Solvency II EEA implementing measures~~ implementing Article 90 of the *Solvency II Directive*, must be included in the calculation of the *group solvency* only in so far as they have been duly authorised by that *supervisory authority*.

...

10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

...

10.3 ...

- (3) In cases where an *intermediate holding company* holds subordinated debt or other *eligible own funds* subject to limitation in accordance with Own Funds 4 and 4A ~~or any applicable Solvency II Regulations~~, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in Own Funds 4 and 4A ~~or any applicable Solvency II Regulations~~ to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.
- (4) Any *eligible own funds* of an *intermediate holding company*, which would require ~~prior authorisation~~ permission from a *supervisory authority* by an ancillary own funds permission or in accordance with ~~regulation 44 of the Solvency 2 Regulations or Solvency II EEA implementing measures~~ implementing Article 90 of the *Solvency II Directive*, ~~may~~ must not be included in the calculation of the *group solvency* of the *group* ~~only in so far as they have been duly authorised by the group supervisor unless a firm has permission from the supervisory authority to do so pursuant to section 138BA of FSMA or Solvency II EEA implementing measures~~ implementing Article 90 of the Solvency II Directive, and only to the extent of its permission.

...

11A METHOD 1: GROUP SPECIFIC PARAMETERS

11A.1 A firm must not apply a group specific parameter unless it is a GSP firm.

11A.2 A GSP firm must not revert back to using the standard parameter in respect of which it has a GSP Permission.

11A.3 A GSP firm must calculate a group specific parameter by replacing a standard parameter set out in Solvency Capital Requirement – Undertaking Specific Parameters 2.3 by the parameter specific to the group.

11A.4 Data used to calculate a group specific parameter must satisfy the criteria set out in Solvency Capital Requirement – Undertaking Specific Parameters 3 at the level of the group.

11A.5 A GSP method used to calculate the group specific parameter in respect of which the GSP firm has a GSP Permission must correspond to the applicable USP method set out in Solvency Capital Requirement – Undertaking Specific Parameter 2.3.

11A.6 For the purposes of this Chapter, the Solvency Capital Requirement – Undertaking Specific Parameters Part must be read with the following modifications:

- (1) a reference to 'undertaking specific parameter' is to be interpreted as a reference to 'group specific parameter';
- (2) a reference to 'USP firm' is to be interpreted as a reference to a 'GSP firm';
- (3) a reference to 'USP method' is to be interpreted as a reference to 'GSP method'; and
- (4) a reference to 'USP Permission' is to be interpreted as a reference to 'GSP Permission'.

...

17 RISK MANAGEMENT AND INTERNAL CONTROL

17.1 (1) Where 2.1(1) or 2.1(2) applies, the following requirements apply with any necessary changes at the level of the group:

(1a) Conditions Governing Business 1A;

(a) Conditions Governing Business 2.2 to 2.6;

(a1) Conditions Governing Business 2A.1 to 2A.6;

(b) Conditions Governing Business 3;

(b1) Conditions Governing Business 3A;

(c) Conditions Governing Business 4.1 to 4.24;

(c1) Conditions Governing Business 4A;

(d) Conditions Governing Business 5;

(e) Conditions Governing Business 6;

(f) Conditions Governing Business 7.1 to 7.37;

(f1) Conditions Governing Business 11A to 11F;

(g) Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4;

(h) Allocation of Responsibilities 4; and

(i) Key Function Holder – Notifications 2 to 6, in accordance with 17.4.

(2) Without prejudice to (1), the ~~risk management and internal control system~~effective system of governance and reporting procedures must be implemented consistently in all

the *undertakings* included in the scope of *group* supervision under 2.2(1) and 2.2(2) so that ~~these~~ the effective systems of governance and reporting procedures can be controlled at the level of the *group*.

- (3) Without prejudice to (1), the internal control ~~mechanisms~~ system must include at least the following:
- (a) adequate mechanisms as regards group solvency to identify and measure all material risks incurred and to appropriately relate *eligible own funds* to risks; and
 - (b) sound reporting and accounting procedures to monitor and manage the intra-group transactions and the risk concentration.

- 17.2 (1) Where 2.1(1) or 2.1(2) applies, a *participating Solvency II undertaking* that is a *firm*, or if there is none, the *UK holding company* or the *relevant insurance group undertakings*, must undertake at the level of the *group* the ORSA assessment required by Conditions Governing Business 3.8 to ~~3.11~~ 3.12.

...

- (3) Where the *participating Solvency II undertaking*, the *UK holding company* or the *relevant insurance group undertakings* (as appropriate) so decide, and subject to the agreement of the *group supervisor*, they may undertake any assessments required by Conditions Governing Business 3.8 to ~~3.11~~ 3.12 at the level of the *group* and at the level of any *subsidiary undertaking* in the *group* at the same time, and may produce a single document covering all the assessments to satisfy the requirement to provide an ORSA report in Conditions Governing Business 3.11 and 3.12.
- (4) Where the *group* exercises the option provided in (3), it must submit the ORSA report ~~document~~ to all *supervisory authorities* concerned at the same time.
- (5) The exercise of the option provided in (3) does not exempt the *subsidiary undertakings* concerned from the obligation to ensure that the requirements of Conditions Governing Business 3.8 to ~~3.11~~ 3.12 are met.

[Note: Art. 246(1) to (4) of the *Solvency II Directive*]

...

20 THIRD COUNTRIES

...

- 20.4 Where the *parent undertaking* referred to in 2.1(3) is itself a *subsidiary undertaking* of an *insurance holding company* or *mixed financial holding company* which does not have its head office in the *UK* or *Gibraltar* or a *third country insurance undertaking* or a *third country reinsurance undertaking*, 20.1 applies at the level of ~~either the ultimate parent undertaking which is an insurance holding company or mixed financial holding company which does not have its head office in the UK or Gibraltar or a third country insurance undertaking or a third country reinsurance undertaking~~ the ultimate parent undertaking which is an insurance holding company or mixed financial holding company which does not have its head office in the UK or Gibraltar or a third country reinsurance undertaking or ~~a third country reinsurance undertaking~~ or [deleted]
- (1) ~~the ultimate parent undertaking which is an insurance holding company or mixed financial holding company which does not have its head office in the UK or Gibraltar or a third country insurance undertaking or a third country reinsurance undertaking; or [deleted]~~
- (2) ~~such other parent undertaking as the PRA may determine in accordance with Regulation 36A of the Solvency 2 Regulations. [deleted]~~

...

Annex G

Amendments to the Investments 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:

original lender

has the meaning given in Securitisation 1.3.

originator

has the meaning given in Securitisation 1.3.

sponsor

has the meaning given in Securitisation 1.3.

...

6 REPACKAGED LOANS

6.1 A *firm* must ensure that the requirements set out in Article 6 of Chapter 2, Chapter 3 and Chapter 4 of the Securitisation Part~~the Solvency II Regulations~~, that need to be met by *undertakings* that repackage loans into tradable securities and other financial instruments in order for a *firm* to be allowed to invest in such securities or instruments, are met in respect of securities or instruments held by the *firm* that were:

...

7 REQUIREMENT FOR INVESTMENTS IN A SECURITISATION

7.1 Where a *firm* becomes aware that the *originator*, *sponsor* or *original lender* fails to comply with the risk retention requirements set out in either Article 6 of Chapter 2 or in Chapter 3 of the Securitisation Part, or a *firm* becomes aware that the due diligence requirements set out in either Article 5(1), (2), (3) and (4) of Chapter 2 or in Chapter 3 of the Securitisation Part are not being complied with, it shall inform the *PRA* immediately.

Annex H

Amendments to the Lloyd's Part

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

...

10 SOLVENCY II REGULATIONS [DELETED]

- 10.1 ~~In complying with requirements imposed on it in the Solvency II Firms Sector of the PRA Rulebook, the Society must ensure that any relevant provision of the Solvency II Regulations is applied in order to achieve the same effect as that provision of the Solvency II Regulations would have (that is, conforming with the requirements of the relevant provision) when applied to a UK Solvency II firm.~~[Deleted]
- 10.2 ~~In complying with requirements imposed on it in the Solvency II Firms Sector of the PRA Rulebook, a managing agent must, in relation to each syndicate managed by it and for each syndicate year, ensure that any relevant provision of the Solvency II Regulations is applied in order to achieve the same effect as that provision of the Solvency II Regulations would have (that is, conforming with the requirements of the relevant provision) when applied to a UK Solvency II firm.~~[Deleted]

...

Annex I

Amendments to the Insurance Special Purpose Vehicles 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:

...

multi-arrangement special purpose vehicle

~~has the meaning given in Article 2 of the Commission Implementing Regulation (EU) 2015/462.~~

means a UK ISPV which assumes risks under more than one separate contractual arrangement from one or more undertakings.

qualifying holding

means a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.

...

2 ~~GENERAL PROVISIONS~~ SOLVENCY REQUIREMENTS

2.1 A UK ISPV must ensure that at all times:

- (1) it is fully funded; and
- (2) if it is a *multi-arrangement special purpose vehicle*, each group of cells (if any) is fully funded.

2.2 In order to be considered fully funded a UK ISPV must satisfy all of the following requirements:

- (1) the assets of the UK ISPV are recognised and valued in accordance with Valuation 2;
- (2) the UK ISPV has at all times assets the value of which is equal to or exceeds the aggregate maximum risk exposure and the UK ISPV is able to pay the amounts it is liable for as they fall due; and
- (3) the proceeds of the debt issuance or other financing mechanism are fully paid-in.

2.3 A UK ISPV must satisfy the requirements in 2.2 taking into account all of the following:

- (1) the liquidity risk of the UK ISPV;
- (2) the quantifiable risks of the UK ISPV; and
- (3) the arrangements for holding assets in the UK ISPV.

2.4 The UK ISPV must:

- (1) report on the matters referred to in 2.3(1) and 2.3(2) and demonstrate to the PRA that it satisfies the requirements set out in 2.2, in the report referred to in 5A.2; and
- (2) be able to demonstrate to the PRA that it satisfies the requirements set out in 2.2, if requested to do so.

2.5 Payments relating to existing *contracts of insurance and reinsurance contracts*, that are expected to be received in the future by the *UK ISPV* from the *undertaking* that has transferred risk to the *UK ISPV*, may be included in the assets of the *UK ISPV*, provided that all of the following requirements are met:

- (1) the future liabilities of the *UK ISPV* to the providers of debt or finance only arise subject to the receipt of the payments from the *undertaking* that has transferred risk to the *UK ISPV*;
- (2) where the *undertaking* which has transferred risks to the *UK ISPV* is:
 - (a) a *UK Solvency II firm* or *Lloyd's*, there is no scenario under which the *basic own funds* of the *undertaking* would be negatively affected by the payment not being received by the *UK ISPV*;
 - (b) a *third country insurance undertaking*, there is no scenario under which the *basic own funds* of the *undertaking*, determined as if it were a *UK Solvency II firm*, would be negatively affected by the payment not being received by the *UK ISPV*;
- (3) the *UK ISPV* continues to meet the conditions set out in 2.2 in the event that the payments from the *undertaking* that has transferred risk to the *UK ISPV* are not received; and
- (4) the payments do not relate to expenses that are excluded from the *aggregate maximum risk exposure*.

2.6 A *UK ISPV* must invest all its assets in accordance with all of the following requirements:

- (1) with respect to the whole portfolio of assets, *UK ISPVs* shall only invest in assets and instruments whose risk the *UK ISPV* can properly identify, measure, monitor, manage, control and report;
- (2) assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition, the localisation of those assets shall be such as to ensure their availability;
- (3) all assets shall be invested in a manner appropriate to the nature and duration of the *UK ISPV's* liabilities. All assets shall be invested in the best interest of the *undertakings* transferring risks to the *UK ISPV*;
- (4) the use of *derivative* instruments shall be possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management;
- (5) investments and assets which are not admitted to trading on a *regulated market* shall be kept to prudent levels;
- (6) assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, *issuer* or *group* of *undertakings*, or geographical area and excessive accumulation of risk in the portfolio as a whole; and
- (7) investments in assets issued by the same *issuer*, or by *issuers* belonging to the same *group*, shall not expose the *UK ISPV* to excessive risk concentration.

2A GENERAL CONDITIONS

2A.1 A *UK ISPV* must ensure that the following conditions are satisfied at all times:

- (1) the *UK ISPV* only assumes risks from an *undertaking* through *reinsurance contracts* or assumes insurance risks through similar arrangements;
- (2) where the *UK ISPV* assumes risks from more than one *undertaking*, the solvency of the *UK ISPV* is not adversely affected by winding-up proceedings of any one of those *undertakings*; and

- (3) the UK ISPV has not determined, on the basis of an assessment carried out in accordance with 2C.5, that any shareholder or member having a *qualifying holding* in the UK ISPV fails to satisfy the criteria set out in 2C.5(1) to 2C.5(4).

2A.2 A UK ISPV must be able to demonstrate to the PRA that it meets the requirements set out in 2.1 to 2.6, 2A.1, Chapter 2B, 2C.1 to 2C.6, 2C.8 to 2C.10 and 5A.1 to 5A.5.

2B MANDATORY CONTRACT CONDITIONS

2B.1 A UK ISPV must ensure that the contractual arrangements relating to the transfer of risk from an *undertaking* to the UK ISPV ensure that the UK ISPV is at all times fully funded in accordance with 2.2 to 2.5.

2B.2 A UK ISPV must ensure that the contractual arrangements relating to the transfer of risk from an *undertaking* to the UK ISPV and from the UK ISPV to the providers of debt or financing shall ensure all of the following:

- (1) the transfer of risk is effective in all circumstances; and
- (2) the extent of risk transfer is clearly defined and incontrovertible.

2B.3 The transfer of risk shall not be effective in all circumstances where there are connected transactions which could undermine the effective transfer of risk.

2B.4 A UK ISPV must ensure that the contractual arrangements relating to the transfer of risk from an *undertaking* to the UK ISPV and from that UK ISPV to the providers of debt or finance shall ensure all of the following:

- (1) the claims of the providers of debt or financing mechanisms are at all times subordinated to the payment obligations of the UK ISPV to the *undertaking*;
- (2) no payments are made to the providers of debt or financing, if following those payments, the UK ISPV would no longer be fully funded;
- (3) the providers of debt or finance to the UK ISPV have no rights of recourse to the assets of the *undertaking*; and
- (4) the providers of debt or finance to the UK ISPV have no rights to apply for the winding-up of the UK ISPV.

2C SYSTEM OF GOVERNANCE

2C.1 A UK ISPV must ensure that all *persons* who effectively run the UK ISPV shall at all times fulfil the requirements set out in Insurance – Fitness and Propriety 2.1, 2.2 and 2.3(1).

2C.2 A UK ISPV must notify the PRA of the identity of the *persons* who effectively run the UK ISPV and must be able to demonstrate to the PRA that those *persons* meet the requirements set out in Insurance – Fitness and Propriety 2.1, 2.2 and 2.3(1).

2C.3 A UK ISPV must notify the PRA of any changes in the identity of the *persons* who effectively run the UK ISPV and provide the PRA with all information needed to assess whether any new *persons* appointed to run the UK ISPV are fit and proper in accordance with the requirements in Insurance – Fitness and Propriety 2.1, 2.2 and 2.3(1).

2C.4 A UK ISPV must notify the PRA if any of the *persons* who effectively run a UK ISPV have been replaced because they no longer fulfil the requirements set out in Insurance – Fitness and Propriety 2.1, 2.2 and 2.3(1).

2C.5 A UK ISPV must take reasonable steps to keep under assessment whether shareholders or members having a *qualifying holding* in that UK ISPV are fit and proper, taking into account all of the following criteria:

- (1) the reputation and integrity of the shareholder or member having a *qualifying holding* in the UK ISPV;
- (2) the financial soundness of the shareholder or member having a *qualifying holding* in the UK ISPV;
- (3) the level of influence that the shareholder or member having a *qualifying holding* in the UK ISPV will exercise over the UK ISPV; and
- (4) whether there are reasonable grounds to suspect that, in connection with the *qualifying holding* of the shareholder or member having a *qualifying holding* in the UK ISPV, money laundering or terrorist financing within the meaning of regulation 3(1) of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 is being or has been committed or attempted, or that the *qualifying holding* could increase that risk.

2C.6 A UK ISPV must notify the PRA of the identity of the *persons* who are its shareholders or members having a *qualifying holding*.

2C.7 A UK ISPV must notify the PRA as soon as it becomes aware that any shareholder or member having a *qualifying holding* may not be fit and proper, taking into account the criteria in 2C.5.

2C.8 A UK ISPV must have an effective system of governance which provides for the sound and prudent management of the UK ISPV and which is appropriate to the nature, scale and complexity of the risks it assumes and the *regulated activity* for which it is authorised.

2C.9 The system of governance of a UK ISPV must include:

- (1) written policies:
 - (a) in relation to at least risk management, internal control, administrative and accounting procedures and, where relevant, *outsourcing*;
 - (b) including policies relating to the areas set out in Conditions Governing Business 3.1(2)(c) to the extent that these are relevant taking into account the *regulated activity* for which the UK ISPV is authorised;
- (2) effective internal controls to ensure that the mandatory contract conditions in Chapter 2B and the requirements in 2.2 to 2.6 are fulfilled on an ongoing basis; and
- (3) an effective risk-management system comprising processes and reporting procedures necessary to identify, measure, monitor, manage and report, on an ongoing basis the risks to which the UK ISPV could be exposed.

2C.10 A UK ISPV must ensure that the policies referred to in 2C.9(1) are implemented effectively.

...

4 MULTI-ARRANGEMENT SPECIAL PURPOSE VEHICLES

4.1 This Chapter only applies to a *multi-arrangement special purpose vehicle*.

4.2 A *multi-arrangement special purpose vehicle* must be a UK protected cell company.

...

4.5 A *multi-arrangement special purpose vehicle* must be able to demonstrate to the PRA on request that its solvency cannot be adversely affected by the winding-up proceedings of any

one of the *undertakings* transferring risks to it and that the *multi-arrangement special purpose vehicle* can maintain the solvency requirement referred to in 2.2 to 2.5 at all times.

4.6 When demonstrating that the *multi-arrangement special purpose vehicle*'s solvency cannot be adversely affected by the winding-up proceedings of any one of the *undertakings* transferring risk to it, the *multi-arrangement special purpose vehicle* must provide sufficient supporting evidence to allow the *PRA* to assess the *multi-arrangement special purpose vehicle*'s overall *aggregate maximum risk exposure* and the *aggregate maximum risk exposure* of each individual contractual arrangement relating to the transfer of risk from an *undertaking*.

4.7 A *multi-arrangement special purpose vehicle* must be able to demonstrate to the *PRA* on request sufficient supporting evidence that it satisfies the conditions set out in 2.2 to 2.5 and Chapter 2B taking into account each individual contractual arrangement in order to determine whether the *multi-arrangement special purpose vehicle* complies with the solvency requirements.

...

5A SUPERVISORY REPORTING

5A.1 A *UK ISPV* must submit to the *PRA* such information as is necessary for the purposes of the *PRA*'s supervision of the *UK ISPV*.

5A.2 A *UK ISPV* must report all of the following information to the *PRA*:

- (1) the value of the assets of the *UK ISPV* valued in accordance with Valuation 2, distinguished by material class and a description of the basis, methods and assumptions used for their valuation;
- (2) the *aggregate maximum risk exposure* of the *UK ISPV* and a description of the basis, methods and assumptions used for the determination of the *aggregate maximum risk exposure*;
- (3) conflicts of interest between the *UK ISPV*, the *undertakings* and the providers of debt or finance; and
- (4) significant transactions entered into by the *UK ISPV* during the last reporting period.

5A.3 A *UK ISPV* must submit the report referred to in 5A.2 at least annually.

5A.4 A *UK ISPV* must submit the report referred to in 5A.2 no later than 14 weeks after the *UK ISPV*'s financial year end.

5A.5 A *UK ISPV* must immediately inform the *PRA* of any changes that could affect the compliance by the *UK ISPV* with 2.2 to 2.6, Chapter 2A, Chapter 2B, 2C.1 to 2C.6 and 2C.8 to 2C.10.

5A.6 As part of the reporting referred to in 5A.2, a *UK ISPV* must submit annually to the *PRA* quantitative information using the templates set out in 6.3 and in accordance with the instructions in 6.4, and comprising:

- (1) content of submission, as specified in template SPV.01.01, according to the instructions under the reference SPV.01.01;
- (2) basic information on the *UK ISPV*, as specified in template SPV.01.02, according to the instructions under the reference SPV.01.02;
- (3) balance sheet data of the *UK ISPV*, distinguishing the material classes of assets, liabilities and equity items, including debt or other financing mechanism issued, as specified in template SPV.02.01, according to the instructions under the reference SPV.02.01;

- (4) off-balance sheet data of the UK ISPV, as specified in template SPV.02.02, according to the instructions under the reference SPV.02.02;
- (5) risks assumed regarding each individual contractual arrangement relating to the transfer of risk from an *undertaking*, as specified in template SPV.03.01, according to the instructions under the reference SPV.03.01; and
- (6) list of debt securities or other financing mechanism issued regarding each individual contractual arrangement relating to the transfer of risk from an *undertaking*, as specified in template SPV.03.02, according to the instructions under the reference SPV.03.02.

5A.7 As part of the reporting referred to in 5A.2, a UK ISPV must submit annually to the PRA qualitative information covering the following:

- (1) an adequate description of the basis, methods and assumptions used for the valuation of the assets;
- (2) an adequate description of the basis, methods and assumptions used for the determination of the *aggregate maximum risk exposure*;
- (3) details of any conflicts of interest between the UK ISPV, the *undertakings* transferring risk to the UK ISPV and the providers of debt or finance;
- (4) details of any significant transactions entered into by the UK ISPV during the last reporting period;
- (5) information to demonstrate that the UK ISPV continues to be fully funded, including:
 - (a) a description of the risks, including liquidity risks and quantifiable risks, assumed by the UK ISPV; and
 - (b) information on the debt instruments issued or other financing mechanism entered into;
- (6) if the UK ISPV has not continuously complied with the requirement to be fully funded during the reporting period, the UK ISPV shall report any relevant information on that non-compliance and its rectification in order to comply with 2.2 to 2.5 during the reporting period; and
- (7) qualitative information on any changes that could affect the UK ISPV's compliance with the requirements set out in 2.2 to 2.6, Chapter 2A, Chapter 2B, 2C.1 to 2C.6 and 2C.8 to 2C.10.

5A.8 When describing the risks assumed, as required by 5A.7, a UK ISPV must provide information on:

- (1) whether the risks assumed are mainly risks under *contracts of long-term insurance* or risks under *contracts of general insurance*;
- (2) what types of trigger events apply to those risks;
- (3) whether a trigger event occurred in the reporting period, triggering a claim against the UK ISPV's assets;
- (4) whether any amounts arising from a claim were paid out in the reporting period, and if that is the case, how much has been paid out to date and whether the trigger event has negatively affected the UK ISPV's liquidity; and
- (5) whether the UK ISPV's risk profile has changed materially since the previous reporting period or from the original terms and conditions as communicated to the PRA upon authorisation.

5A.9 When providing information on debt instruments issued or other financing mechanism entered into as required by 5A.7, a UK ISPV must report on the following:

- (1) the proceeds of the debt issuance or other financing mechanism and whether they have been fully paid-in regarding each individual contractual arrangement relating to the transfer of risk from an *undertaking*;
- (2) the types of tiers of the financing mechanism, specifying the tranches or tiers, including information on external ratings received or internal ratings used for issued debt instruments and which, if any, *external credit assessment institutions* were used;
- (3) the reasons why the financial arrangements are regarded as sufficiently robust to ensure continued protection of potential claims of the *undertaking* transferring risk to the *UK ISPV*, to maintain its ability to meet amounts it is liable for as they fall due and to ensure the pay-out structure of debt or financing mechanisms; and
- (4) any debt instruments that have been cancelled, bought back or redeemed, partially or in full, since those instruments were issued and separately for the current reporting period.

5A.10 A *UK ISPV* must submit the quantitative content of the report referred to in 5A.6, and the qualitative content of the report referred to in 5A.7, to the *PRA* in an electronic format.

5A.11 A *UK ISPV* must submit all monetary data from the report referred to in 5A.6 in the *UK ISPV*'s currency of reporting. For that purpose, other currencies shall be converted into the currency of reporting, using the applicable exchange rate at the end of the reporting period.

5A.12 A *UK ISPV* must submit numeric values as facts according to the following formats:

- (1) data points with the data type 'Monetary' shall be reported using a minimum precision equivalent to units; and
- (2) data points with the data type 'Integer' shall be reported using no decimals and a precision equivalent to units.

6 FORMS

...

6.3 The templates referred to in 5A.6 are the following:

- (1) template SPV.01.01 can be found [here](#);
- (2) template SPV.01.02 can be found [here](#);
- (3) template SPV.02.01 can be found [here](#);
- (4) template SPV.02.02 can be found [here](#);
- (5) template SPV.03.01 can be found [here](#); and
- (6) template SPV.03.02 can be found [here](#).

6.4 The instructions referred to in 5A.6 can be found [here](#).

Annex J

Amendments to the Matching Adjustment Part

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

...

2 ELIGIBILITY TO APPLY A MATCHING ADJUSTMENT

...

2.4

...

- (2) For the purpose of (1) the increase in mortality rates shall only apply to those *policies* for which the increase in mortality rates leads to an increase in *technical provisions*, taking into account the following:
- (a) multiple *policies* in respect of the same insured *person* may be treated as if they were one *policy*; and
 - (b) where the calculation of *technical provisions* is based on groups of *policies* as referred to in ~~Article 35 of Commission Delegated Regulation (Solvency II)~~ 2015/35 Technical Provisions – Further Requirements 20.1, the identification of the *policies* for which *technical provisions* increase under an increase of mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result which is not materially different.

...

5 ASSETS WITH CASH FLOWS WHICH ARE NOT FIXED

...

- 5.4 In assessing asset cash-flows for the purposes of 5.3, a *firm* must:
- (1) base the best estimate of the cash-flows on the contractual payments of the asset;
 - (2) use assumptions consistent with the economics of the asset; and
 - (3) where expert judgment is used in determining the cash-flows, ensure that it is subject to the level of controls specified in ~~Article 2 of Commission Delegated Regulation (Solvency II)~~ 2015/35 Conditions Governing Business 1A.1 and 1A.2.

...

7 INTERNAL CREDIT ASSESSMENTS AND CREDIT RATINGS

...

- 7.4 The use of *credit ratings* in the calculation of the *matching adjustment* shall be in line with the specifications set out in ~~Articles 4 – 6 of the Commission Delegated Regulation (EU)~~ 2015/35 Solvency Capital Requirement – Standard Formula 1A to 1C and Commission Implementing Regulation 2016/1800.

...

Annex K

Amendments to the Minimum Capital Requirement Part

1 ~~APPLICATION AND DEFINITIONS~~

...

- 1.2 In this Part, the following definitions shall apply: [Note: there are currently no Part specific definitions]

~~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 or 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]~~

~~captive reinsurer~~

~~means a UK Solvency II firm that is a pure reinsurer 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 reinsurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which that pure reinsurer is a member.~~

~~[Note: Art.13(5) of the Solvency II Directive]~~

...

Annex L

Amendments to the Own Funds 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:

Additional Tier 1 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in Chapter 3 and Chapter 6 of Part Two of CRR.

Common Equity Tier 1 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in Chapter 2 and Chapter 6 of Part Two of CRR.

...

restricted Tier 1 own funds

means the items referred to in 3A.1.1(c), 3A.1.1(e) and 3A.1(2).

Tier 2 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in Chapter 4 and Chapter 6 of Part Two of CRR.

2 DETERMINATION OF OWN FUNDS

2.1 A firm's own funds comprise the sum of its *basic own funds* and subject to 2.5, ancillary own funds.

[Note: Art. 87 of the *Solvency II Directive*]

...

2.5 When determining its *own funds*, a firm must not take into account any item of *ancillary own funds* unless, subject to 2.6, it has received an ancillary own funds permission in respect of that item specifying the PRA's approval of either:

- (1) a monetary amount for the relevant item of *ancillary own funds*; or
- (2) the method by which to determine the amount of the relevant item of *ancillary own funds*, together with the amount determined in accordance with that method for a specified time period.

[Note: Art. 90(1) and (3) of the *Solvency II Directive*]

2.6 Where, in respect of an *ancillary own funds* item, a firm has received ~~approval~~ an ancillary own funds permission:

- (1) that specifies a monetary amount, in accordance with ~~under 2.5(1), the firm~~ it may only include that item in its own funds the item of ancillary own funds for an amount up to the monetary amount set out in the ancillary own funds permission approved; or
- (2) that specifies a method by which to determine a monetary amount in accordance with ~~under 2.5(2), the firm~~ it may only include that item in its own funds the item of ancillary own funds up to the monetary amount that has been determined by using the method set

~~out in approved, and only for the time period specified by, the *ancillary own funds permission* for which approval is granted.~~

[Note: Art. 90(3) of the *Solvency II Directive*]

...

3 CLASSIFICATION OF OWN FUNDS INTO TIERS

...

- 3.4 (1) In class in classifying its *own funds* items, a *firm* must refer to the *own funds lists*~~lists of *own funds* items set out in the *Solvency II Regulations*.~~
- (2) A *firm* must not include an *own funds* item in its *Tier 1 own funds*, *Tier 2 own funds* or *Tier 3 own funds* if that *own funds* item is not covered by the *own funds lists*~~lists referred to in (4)~~, unless it has received a *classification of own funds permission* in respect of that item~~the PRA's approval.~~
- (3) ~~When seeking approval to classify an *own funds* item referred to in (2) in its *Tier 1 own funds*, *Tier 2 own funds* or *Tier 3 own funds*, a *firm* must demonstrate that the *own funds* item satisfies the criteria laid down in 3.1 to 3.3 for that classification.~~~~[Deleted]~~

[Note: Art. 95 of the *Solvency II Directive*]

3.4A Notwithstanding that a *firm* has received a *classification of own funds permission*, *basic own funds* items not included in the *own funds lists* may only be classified as *Tier 1 own funds* where they are fully paid in.

...

- 3.7 (1) A *firm* must not classify as *Tier 1 own funds*:
- (a) paid-in ordinary share capital and related share premium account; or
 - (b) paid-in initial fund, member's contribution or the equivalent *basic own funds* for a *mutual*
- unless the *firm* has the right to cancel and withhold dividends or other distributions in respect of those items at any time prior to payment₁ (and exercises that right) in the circumstances specified in 3B.1(12)~~the *Solvency II Regulations*.~~
- (2) A *firm* must not classify as *Tier 2 basic own funds*:
- (a) ordinary share capital and related share premium account; or
 - (b) initial fund, member's contribution or the equivalent *basic own funds* for a *mutual*
- unless the *firm* has the right to defer dividends or other distributions in respect of those items at any time prior to payment₁ (and exercises that right) in the circumstances specified in 3E.1(8)~~the *Solvency II Regulations*.~~

[Note: Art. 93 and Art. 94 of the *Solvency II Directive*]

3A TIER 1 – LIST OF OWN FUNDS ITEMS

3A.1 The following *basic own funds* items shall be deemed to substantially possess the characteristics set out in 3.5, taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 1 own funds*, where the following items display all of the features set out in 3B:

- (1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:
 - (a) paid-in ordinary share capital and the related share premium account;

- (b) paid-in initial funds, members' contributions or the equivalent *basic own funds* item for *mutual* and *mutual-type undertakings*;
- (c) paid-in subordinated *mutual* member accounts;
- (d) *surplus funds* that are not considered as insurance and *reinsurance* obligations in accordance with 2.1 of the Surplus Funds Part;
- (e) paid-in *preference shares* and the related share premium account; and
- (f) a reconciliation reserve calculated in accordance with 3C;
- (2) paid-in subordinated liabilities valued in accordance with 2 of the Valuation Part.

3B TIER 1 – FEATURES DETERMINING CLASSIFICATION

3B.1 The features referred to in 3A are the following:

- (1) the *basic own funds* item:
 - (a) in the case of items referred to in 3A.1(1)(a) and 3A.1(1)(b), ranks after all other claims in the event of winding-up proceedings regarding the *firm*; and
 - (b) in the case of *restricted Tier 1 own funds*, ranks to the same degree as, or ahead of, the items referred to in 3A.1(1)(a) and 3A.1(1)(b), but after items listed in 3D and 3F that display the features set out in 3E and 3G respectively and after the claims of all *policyholders* and non-subordinated creditors;
- (2) the *basic own funds* item does not include features which may cause the insolvency of the *firm* or may accelerate the process of the *firm* becoming insolvent;
- (3) the *basic own funds* item is immediately available to absorb losses;
- (4) the *basic own funds* item absorbs losses at least once there is non-compliance with the *SCR* and does not hinder the recapitalisation of the *firm*;
- (5) the *basic own funds* item, in the case of *restricted Tier 1 own funds*, possesses one of the following principal loss absorbency mechanisms to be triggered at the trigger event specified in 3B.10 and complies with the conditions set out in 3B.9:
 - (a) the nominal or principal amount of the *basic own funds* item is written down as set out in 3B.5 and 3B.6;
 - (b) the *basic own funds* item automatically converts into a *basic own funds* item listed in 3A.1(1)(a) or 3A.1(1)(b) as set out in 3B.7 and 3B.8; or
 - (c) a principal loss absorbency mechanism that achieves an equivalent outcome to the principal loss absorbency mechanisms set out in 3B.1(5)(a) or 3B.1(5)(b);
- (6) the *basic own funds* item meets one of the following criteria:
 - (a) in the case of items referred to in 3A.1(1)(a) and 3A.1(1)(b), the item is undated or, where the *firm* has a fixed maturity, is of the same maturity as the *firm*; or
 - (b) in the case of *restricted Tier 1 own funds* items, the item is undated or the first contractual opportunity to repay or redeem the *basic own funds* item does not occur before five years from the date of issuance;
- (7) a *restricted Tier 1 own funds* item may only allow for repayment or redemption of that item between 5 and 10 years after the date of issuance where the *firm's SCR* is exceeded by an appropriate margin taking into account the solvency position of the *firm* including the *firm's* medium-term capital management plan;

- (8) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2), is only repayable or redeemable at the option of the *firm* and provides that the repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;
- (9) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2), does not include any incentives to repay or redeem that item that increase the likelihood that a *firm* will repay or redeem that *basic own funds* item where it has the option to do so;
- (10) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2), provides for the suspension of repayment or redemption of that item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:
- (a) the *firm* complies with the *SCR*; and
 - (b) the repayment or redemption would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3B.1(11);
- (11) notwithstanding 3B.1(10), the *basic own funds* item may allow for repayment or redemption of that item where the *firm* does not comply with the *SCR* or repayment or redemption would lead to such non-compliance, only where all of the following conditions are met:
- (a) the *firm* has received prior permission from the *PRA* to repay or redeem that item;
 - (b) the item is to be exchanged for or converted into another *Tier 1 own funds* item of at least the same quality; and
 - (c) the *MCR* will be complied with after the repayment or redemption;
- (12) the *basic own funds* item meets one of the following criteria:
- (a) in the case of items referred to in 3A.1(1)(a) and 3A.1(1)(b), either the legal or contractual arrangements governing the *basic own funds* item or legislation applicable in the *UK* allow for the cancellation of distributions in relation to that item where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:
 - (i) the *firm* complies with the *SCR*; and
 - (ii) the distribution would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3B.1(13);
 - (b) in the case of *restricted Tier 1 own funds* items, the terms of the contractual arrangement governing the *basic own funds* item provide for the cancellation of distributions in relation to that item where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:
 - (i) the *firm* complies with the *SCR*; and
 - (ii) the distribution would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3B.1(13);
- (13) notwithstanding 3B.1(12), the *basic own funds* item may allow for a distribution to be made where the *firm* does not comply with the *SCR* or the distribution on a *basic own funds* item would lead to such non-compliance, only where this provision is subject to all of the following conditions:

- (a) the *firm* has received prior permission from the *PRA* that the distribution can be made;
 - (b) the distribution would not further weaken the solvency position of the *firm*; and
 - (c) the *MCR* will be complied with after the distribution is made;
 - (14) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2), provides the *firm* with full flexibility over the distributions on the *basic own funds* item in accordance with the conditions set out in 3B.3 or 3B.4; and
 - (15) the *basic own funds* item is free from encumbrances and is not connected with any other transaction, which when considered with the *basic own funds* item, could result in that *basic own funds* item not complying with 3.1.
- 3B.2 For the purposes of 3B, the exchange or conversion of a *basic own funds* item into another *Tier 1 own funds* item or the repayment or redemption of a *Tier 1 own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to receiving prior permission from the *PRA*.
- 3B.3 For the purposes of 3B.1(14), in the case of *basic own funds* items referred to in 3A.1(1)(a) and 3A.1(1)(b), the item provides full flexibility over distributions only where all of the following conditions are met:
- (1) there is no preferential distribution treatment regarding the order of distribution payments and the terms of the contractual arrangement governing the *own funds* item do not provide preferential rights to the payment of distributions;
 - (2) distributions are paid out of distributable items;
 - (3) the level of distributions is not determined on the basis of the amount for which the *own funds* item was purchased at issuance and there is no cap or other restriction on the maximum level of distribution;
 - (4) notwithstanding 3B.3(3), in the case of instruments issued by *mutual* and *mutual-type undertakings*, a cap or other restriction on the maximum level of distribution may be set, provided that cap or other restriction is not an event linked to distributions being made, or not made, on other *own funds* items;
 - (5) there is no obligation for a *firm* to make distributions;
 - (6) non-payment of distributions does not constitute an event of default by the *firm*; and
 - (7) the cancellation of distributions imposes no restrictions on the *firm*.
- 3B.4 For the purposes of 3B.1(14), in the case of *restricted Tier 1 own funds* items, the item provides full flexibility over distributions only where all of the following conditions are met:
- (1) distributions are paid out of distributable items;
 - (2) the *firm* has full discretion at all times to cancel distributions in relation to the *own funds* item for an unlimited period and on a non-cumulative basis and the *firm* may use the cancelled payments without restriction to meet its obligations as they fall due;
 - (3) there is no obligation to substitute the distribution by a payment in any other form;
 - (4) there is no obligation to make distributions in the event of a distribution being made on another *own funds* item;
 - (5) non-payment of distributions does not constitute an event of default by the *firm*; and
 - (6) the cancellation of distributions imposes no restrictions on the *firm*.

3B.5 For the purposes of 3B.1(5)(a), the nominal or principal amount of the *basic own funds* item must be written down in such a way that all of the following are reduced:

- (1) the claim of the holder of that item in the event of winding-up proceedings;
- (2) the amount required to be paid on repayment or redemption of that item; and
- (3) the distributions paid on that item.

3B.6 For the purposes of 3B.1(5)(a), the provisions governing the write-down of the nominal or principal amount of the *basic own funds* item must provide for all of the following:

- (1) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial write-down would be sufficient to re-establish compliance with the SCR, there is a partial write-down of the nominal or principal amount for an amount that is at least sufficient to re-establish compliance with the SCR;
- (2) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial write-down would not be sufficient to re-establish compliance with the SCR, the nominal or principal amount as determined at the time of original issuance of the *basic own funds* item is written down at least on a linear basis in a manner which ensures that full write-down will occur when 75% coverage of the SCR is reached, or prior to that event;
- (3) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(1) or 3B.10(2), the nominal or principal amount is written down in full; and
- (4) following a write-down in accordance with 3B.6(2) ('the initial write-down'):
 - (a) if the trigger event specified in 3B.10 subsequently occurs in the circumstances described in 3B.10(1) or 3B.10(2), the nominal or principal amount is written down in full;
 - (b) if, by the end of the period of three *months* from the date of the trigger event that resulted in the initial write-down, no trigger event has occurred in the circumstances described in 3B.10(1) or 3B.10(2) but the solvency ratio has deteriorated further, the nominal or principal amount as determined at the time of original issuance of the *basic own funds* item is written down further in accordance with 3B.6(2) to reflect that further deterioration in the solvency ratio; and
 - (c) a further write-down is made in accordance with 3B.6(4)(b) for each subsequent deterioration in the solvency ratio at the end of each subsequent period of three *months* until the *firm* has re-established compliance with the SCR.

For the purposes of 3B.6(4), the 'solvency ratio' means the ratio of *eligible own funds* (to cover a *firm's* SCR) and the *firm's* SCR using the latest available values.

3B.7 For the purposes of 3B.1(5)(b), the provisions governing the conversion into *basic own funds* items listed in 3A.1(1)(a) or 3A.1(1)(b) must specify either of the following:

- (1) the rate of conversion and a limit on the permitted amount of conversion; or
- (2) a range within which the instruments will convert into the *basic own funds* item listed in 3A.1(1)(a) or 3A.1(1)(b).

3B.8 For the purposes of 3B.1(5)(b), the provisions governing the conversion into *basic own funds* items listed in 3A.1(1)(a) or 3A.1(1)(b) must provide for all of the following:

- (1) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial conversion would be sufficient to re-establish compliance with the SCR, there is a partial conversion of the item for an amount that is at least sufficient to re-establish compliance with the SCR;

- (2) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial conversion would not be sufficient to re-establish compliance with the SCR, the item is converted in such a way that the remaining nominal or principal amount of the item decreases at least on a linear basis ensuring that full conversion will occur when 75% coverage of the SCR is reached, or prior to that event;
- (3) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(1) or 3B.10(2), the item is converted in full; and
- (4) following a conversion in accordance with 3B.8(2) ('the initial conversion'):
 - (a) if the trigger event specified in 3B.10 subsequently occurs in the circumstances described in 3B.10(1) or 3B.10(2), the item is converted in full;
 - (b) if, by the end of the period of three months from the date of the trigger event that resulted in the initial conversion, no trigger event has occurred in the circumstances described in 3B.10(1) or 3B.10(2) but the solvency ratio has deteriorated further, the item is converted further in accordance with 3B.8(2) to reflect that further deterioration in the solvency ratio; and
 - (c) a further conversion is made in accordance with 3B.8(4)(b) for each subsequent deterioration in the solvency ratio at the end of each subsequent period of three months until the firm has re-established compliance with the SCR.

For the purposes of 3B.8(4), the 'solvency ratio' has the same meaning as it has for the purposes of 3B.6.

3B.9 The nominal or principal amount of the *basic own funds* item must absorb losses at the trigger event. Loss absorbency resulting from the cancellation of, or a reduction in, distributions does not constitute a principal loss absorbency mechanism in accordance with 3B.1(5).

3B.10 The trigger event referred to in 3B.1(5) is significant non-compliance with the SCR. Non-compliance with the SCR is considered significant for these purposes where any of the following conditions is met:

- (1) the amount of *own funds* items eligible to cover the SCR is equal to or less than 75% of the SCR;
- (2) the amount of *own funds* items eligible to cover the MCR is equal to or less than MCR; or
- (3) compliance with the SCR is not re-established within a period of three months from the date when non-compliance with the SCR was first observed.

A firm may specify, in the provisions governing the instrument, one or more trigger events in addition to the events referred to in 3B.10(1) to 3B.10(3).

3B.11 For the purposes of 3B.1(4), 3B.1(10) and 3B.1(12), references to the SCR must be read as references to the MCR where non-compliance with the MCR occurs before non-compliance with the SCR.

3B.12 Notwithstanding the requirement in 3B.1(5) for the principal loss absorbency mechanism to be triggered at the trigger event specified in 3B.10, the *basic own funds* item may provide for the principal loss absorbency mechanism not to be triggered at that event only where this provision is subject to all of the following conditions:

- (1) the trigger event occurs in the circumstances described in 3B.10(3);
- (2) there have been no previous trigger events in the circumstances described 3B.10(1) or 3B.10(2); and
- (3) the firm has received prior permission from the PRA to waive the triggering of the principal loss absorbency mechanism on the basis of the following information:

- (a) projections provided to the PRA by the firm when that firm submits the recovery plan required by 4.4(2) of the Group Supervision Part and 3.1(2) of the Undertakings in Difficulty Part, demonstrate that triggering the principal loss absorbency mechanism in that case would be very likely to give rise to a tax liability that would have a significant adverse effect on the firm's solvency position; and
- (b) a certificate issued by the firm's statutory auditors certifying that all of the assumptions used in the projections are realistic.

3B.13 Notwithstanding the requirement in 3B.1(6)(b), the *basic own funds* item may allow for repayment or redemption earlier than that period where the following conditions are met:

- (1) the firm's SCR, after the repayment or redemption, will be exceeded by an appropriate margin taking into account the solvency position of the firm, including the firm's medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either:
 - (a) there is a change in the regulatory classification of the *basic own funds* item which would be likely to result in its exclusion from the *own funds* or reclassification as a lower tier of *own funds* and both of the following conditions are met:
 - (i) the PRA considers such a change to be sufficiently certain; and
 - (ii) the firm demonstrates to the satisfaction of the PRA that the regulatory reclassification of the *basic own funds* item was not reasonably foreseeable at the time of its issuance; or
 - (b) there is a change in the applicable tax treatment of the *basic own funds* item which the firm demonstrates to the satisfaction of the PRA:
 - (i) is material; and
 - (ii) was not reasonably foreseeable at the time of its issuance.

3B.14 A firm must not:

- (1) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2);
- (2) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), and 3A.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3B.1(10);
- (3) make a distribution under a *basic own funds* item in the circumstances referred to in 3B.1(12); or
- (4) redeem or repay a *basic own funds* item in the circumstances set out in 3B.13,

unless, in each case, it has received prior permission from the PRA pursuant to section 138BA of FSMA.

3B.15 For the purposes of 3B, a firm may only:

- (1) exchange or convert a *Tier 1 own funds* item into another *Tier 1 own funds* item; or
- (2) repay or redeem a *Tier 1 own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality,

without it being deemed as a repayment or redemption, if the firm has received prior permission from the PRA pursuant to section 138BA of FSMA for the exchange, conversion, repayment or redemption (as applicable).

3B.16 A firm must treat significant non-compliance with the SCR (as defined in 3B.10) as a trigger event for the principal loss absorbency mechanism referred to in 3B.1(5) unless it has received prior permission from the PRA pursuant to section 138BA of FSMA not to treat that non-compliance as a trigger event.

3C RECONCILIATION RESERVE

3C.1 The reconciliation reserve referred to in 3A.1(1)(f) equals the total excess of assets over liabilities reduced by all of the following:

- (1) the amount of own shares held by the firm;
- (2) foreseeable dividends, distributions and charges;
- (3) the basic own funds items included in 3A.1(1)(a) to (e), 3D.1(1) and 3F.1(1);
- (4) any basic own funds item not included in 3A.1(1)(a) to (e), 3D.1(1) and 3F.1(1), in respect of which a firm has a classification of own funds permission;
- (5) the restricted own funds items that meet one of the following requirements:
 - (a) exceed the notional SCR in the case of matching adjustment portfolios and ring-fenced funds determined in accordance with 3L.1; or
 - (b) that are excluded in accordance with 3L.2; and
- (6) the amount of participations held in financial and credit institutions as referred to in 3K.6 deducted in accordance with 3K, to the extent that this is not already included in 3C.1(1) to (5).

3C.2 The reconciliation reserve may be positive or negative.

3C.3 A firm is not required to determine whether, and to what extent, the reconciliation reserve displays the features set out in 3B by assessing features of the assets and liabilities that are included in computing the excess of assets over liabilities or the underlying items in the firm's financial statements.

3D TIER 2 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS

3D.1 The following basic own funds items shall be deemed to substantially possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a firm must classify them as Tier 2 own funds where the following items display all of the features set out in 3E:

- (1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:
 - (a) ordinary share capital and the related share premium account;
 - (b) initial funds, members' contributions or the equivalent basic own funds item for mutual and mutual-type undertakings;
 - (c) subordinated mutual member accounts;
 - (d) preference shares and the related share premium account; and
- (2) subordinated liabilities valued in accordance with 2 of the Valuation Part.

3E TIER 2 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

3E.1 The features referred to in 3D must be either those set out in 3E.1(1) to (10) or those set out in 3E.1(11):

- (1) the *basic own funds* item ranks after the claims of all *policyholders* and non-subordinated creditors;
- (2) the *basic own funds* item does not include features which may cause the insolvency of the *firm* or may accelerate the process of the *firm* becoming insolvent;
- (3) the *basic own funds* item is undated or has an original maturity of at least 10 years or the first contractual opportunity to repay or redeem the *basic own funds* item does not occur before 5 years from the date of issuance;
- (4) the *basic own funds* item is only repayable or redeemable at the option of the *firm* and provides that repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;
- (5) the *basic own funds* item may include limited incentives to repay or redeem that *basic own funds* item, provided that these do not occur before 10 years from the date of issuance;
- (6) the *basic own funds* item provides for the suspension of repayment or redemption of that item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:
 - (a) the *firm* complies with the *SCR*; and
 - (b) the repayment or redemption would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3E.1(7);
- (7) notwithstanding 3E.1(6), the *basic own funds* item may allow for the repayment or redemption of that item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance, where all of the following conditions are met:
 - (a) the *firm* has received prior permission from the *PRA* to repay or redeem that item;
 - (b) the item is to be exchanged for or converted into another *Tier 1 own funds* or *Tier 2 basic own funds* item of at least the same quality; and
 - (c) the *MCR* will be complied with after the repayment or redemption;
- (8) the *basic own funds* item meets one of the following criteria:
 - (a) in the case of items referred to in 3D.1(1)(a) and (b), either the legal or contractual arrangements governing the *basic own funds* item or legislation applicable in the *UK* allow for the distributions in relation to that item to be deferred where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:
 - (i) the *firm* complies with the *SCR*; and
 - (ii) the distribution would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3E.1(9); or
 - (b) in the case of items referred to in 3D.1(1)(c), 3D.1(1)(d) and 3D.1(2), the terms of the contractual arrangement governing the *basic own funds* item provide for the distributions in relation to that item to be deferred where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:
 - (i) the *firm* complies with the *SCR*; and
 - (ii) the distribution would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3E.1(9);

(9) notwithstanding 3E.1(8), the *basic own funds* item may allow for a distribution to be made where there is non-compliance with the *SCR* or the distribution on a *basic own funds* item would lead to such non-compliance, only where this provision is subject to all of the following conditions:

- (a) the *firm* has received prior permission from the *PRA*;
 - (b) the distribution would not further weaken the solvency position of the *firm*; and
 - (c) the *MCR* will be complied with after the distribution is made;
- (10) the *basic own funds* item is free from encumbrances and is not connected with any other transaction, which when considered with the *basic own funds* item, could result in that *basic own funds* item not complying with 3.2(1).
- (11) the *basic own funds* item is a *Tier 1 own funds* item that displays the features set out in 3B that are relevant for a *restricted Tier 1 own funds* item, but exceeds the limit set out in 4A.3.

3E.2 For the purposes of 3E, the exchange or conversion of a *basic own funds* item into another *Tier 1 own funds* item or *Tier 2 basic own funds* item or the repayment or redemption of a *Tier 2 basic own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to receiving prior permission from the *PRA*.

3E.3 For the purposes of 3E.1(6) and 3E.1(8), references to the *SCR* must be read as references to the *MCR* where non-compliance with the *MCR* occurs before non-compliance with the *SCR*.

3E.4 For the purposes of 3E.1(5), a *firm* may only treat incentives to redeem in the form of an interest rate step-up associated with a call option as limited where the step-up takes the form of a single increase in the coupon rate and results in an increase in the initial rate that is no greater than the higher of the following amounts:

- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; and
- (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.

3E.5. Notwithstanding the requirement in 3E.1(3), the *basic own funds* item may allow for repayment or redemption before five years where the following conditions are met:

- (1) the *firm's SCR*, after the repayment or redemption, will be exceeded by an appropriate margin, taking into account the solvency position of the *firm*, including the *firm's* medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either:
 - (a) there is a change in the regulatory classification of the *basic own funds* item which would be likely to result in its exclusion from the *own funds* or reclassification as a lower tier of *own funds*; and
 - (i) the *PRA* considers such a change to be sufficiently certain; and
 - (ii) the *firm* demonstrates to the satisfaction of the *PRA* that the regulatory reclassification of the *basic own funds* item was not reasonably foreseeable at the time of its issuance; or
 - (b) there is a change in the applicable tax treatment of the *basic own funds* item which the *firm* demonstrates to the satisfaction of the *PRA*:
 - (i) is material; and

(ii) was not reasonably foreseeable at the time of its issuance.

3E.6 A firm must not:

- (1) redeem or repay a Tier 2 basic own funds item;
- (2) redeem or repay a Tier 2 basic own funds item when redemption or repayment has been suspended in the circumstances referred to in 3E.1(6);
- (3) make a distribution under a Tier 2 basic own funds item in the circumstances referred to in 3E.1(8); or
- (4) redeem or repay a basic own funds item in the circumstances set out in 3E.5,

unless, in each case, it has received prior permission from the PRA pursuant to section 138BA of FSMA.

3E.7 For the purposes of 3E, a firm may only:

- (1) exchange or convert a basic own funds item into another Tier 1 own funds item or Tier 2 basic own funds item; or
- (2) repay or redeem a Tier 2 basic own funds item out of the proceeds of a new basic own funds item of at least the same quality,

without it being deemed as a repayment or redemption, if the firm has received prior permission from the PRA pursuant to section 138BA of FSMA for the exchange, conversion, repayment or redemption (as applicable).

3F TIER 3 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS

3F.1 The following *basic own funds* items shall be deemed to possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a firm must classify them as *Tier 3 own funds* where the following items display all of the features set out in 3G:

- (1) the part of excess of assets over liabilities, valued in accordance with the Valuation Part, comprising the following items:
 - (a) subordinated mutual member accounts;
 - (b) preference shares and the related share premium account; and
 - (c) an amount equal to the value of net deferred tax assets;
- (2) subordinated liabilities valued in accordance with 2 of the Valuation Part.

3G TIER 3 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

3G.1 The features referred to in 3F are the following:

- (1) the basic own funds item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), ranks after the claims of all policyholders and non-subordinated creditors;
- (2) the basic own funds item does not include features which may cause the insolvency of the firm or may accelerate the process of the firm becoming insolvent;
- (3) the basic own funds item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), is undated or has an original maturity of at least five years, where the maturity date is the first contractual opportunity to repay or redeem the basic own funds item;
- (4) the basic own funds item, in the case of items referred to in points 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), is only repayable or redeemable at the option of the firm and provides that the repayment or redemption of the basic own funds item is subject to the firm receiving prior permission from the PRA;

- (5) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), may include limited incentives to repay or redeem that *basic own funds* item;
 - (6) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), provides for the suspension of repayment or redemption where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:
 - (a) the *firm* complies with the *SCR*; and
 - (b) the repayment or redemption would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3G.1(7);
 - (7) notwithstanding 3G.1(6), the *basic own funds* item may allow for the repayment or redemption of that item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance, only where all the following conditions are met:
 - (a) the *firm* has received prior permission from the *PRA* that it can repay or redeem that item;
 - (b) the item is to be exchanged for or converted into another *Tier 1 own funds* item, *Tier 2 basic own funds* item or *Tier 3 basic own funds* item of at least the same quality; and
 - (c) the *MCR* will be complied with after the repayment or redemption;
 - (8) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2), provides for the deferral of distributions in relation to that item where there is non-compliance with the *MCR* or the distribution would lead to such non-compliance until:
 - (a) the *firm* complies with the *MCR*; and
 - (b) the distribution would not lead to non-compliance with the *MCR*; and
 - (9) the *basic own funds* item is free from encumbrances and is not connected with any other transaction, which could undermine the features that the item is required to possess in accordance with 3G.
- 3G.2 For the purposes of 3G, the exchange or conversion of a *basic own funds* item into another *Tier 1 own funds* item, *Tier 2 basic own funds* item or *Tier 3 basic own funds* item or the repayment or redemption of a *Tier 3 basic own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to receiving prior permission from the *PRA*.
- 3G.3 For the purposes of 3G.1(6), references to the *SCR* must be read as references to the *MCR* where non-compliance with the *MCR* occurs before non-compliance with the *SCR*.
- 3G.4 For the purposes of 3G.1(5), a *firm* may only treat incentives to redeem in the form of an interest rate step-up associated with a call option as limited where the step-up takes the form of a single increase in the coupon rate and results in an increase in the initial rate that is no greater than the higher of the following amounts:
- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; and
 - (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.

3G.5 Notwithstanding the requirement in 3G.1(3), the *basic own funds* item may allow for repayment or redemption before five years after the date of issuance where the following conditions are met:

- (1) the *firm's SCR*, after the repayment or redemption, will be exceeded by an appropriate margin, taking into account the solvency position of the *firm*, including the *firm's* medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either:
 - (a) there is a change in the regulatory classification of the *basic own funds* item which would be likely to result in its exclusion from the *own funds* or reclassification as a lower tier of *own funds*; and
 - (i) the *PRA* considers such a change to be sufficiently certain; and
 - (ii) the *firm* demonstrates to the satisfaction of the *PRA* that the regulatory reclassification of the *basic own funds* item was not reasonably foreseeable at the time of its issuance; or
 - (b) there is a change in the applicable tax treatment of the *basic own funds* item which the *firm* demonstrates to the satisfaction of the *PRA*:
 - (i) is material; and
 - (ii) was not reasonably foreseeable at the time of its issuance.

3G.6 A *firm* must not:

- (1) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2);
- (2) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b) and 3F.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3G.1(6); or
- (3) redeem or repay a *basic own funds* item in the circumstances set out in 3G.5,

unless, in each case, it has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

3G.7 For the purposes of 3G, a *firm* may only:

- (1) exchange or convert a *basic own funds* item into another *Tier 1 own funds* item, *Tier 2 basic own funds* item or *Tier 3 basic own funds* item; or
- (2) repay or redeem a *Tier 3 basic own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality,

without it being deemed as a repayment or redemption, if the *firm* has received prior permission from the *PRA* pursuant to section 138BA of *FSMA* for the exchange, conversion, repayment or redemption (as applicable).

3H TIER 2 ANCILLARY OWN FUNDS – LIST OF OWN FUNDS ITEMS

3H.1 The following *ancillary own funds* items shall be deemed to substantially possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must, provided it has received an *ancillary own funds permission* in respect of any of the following items of *ancillary own funds* items, classify them as *Tier 2 own funds*, where they display all of the features set out in 3I:

- (1) unpaid and uncalled ordinary share capital callable on demand;

- (2) unpaid and uncalled initial funds, members' contributions or the equivalent *basic own funds* item for *mutual* and *mutual-type undertakings*, callable on demand;
- (3) unpaid and uncalled *preference shares* callable on demand;
- (4) a legally binding commitment to subscribe and pay for subordinated liabilities on demand;
- (5) letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by *credit institutions*;
- (6) letters of credit and guarantees provided that the items can be called up on demand and are clear of encumbrances;
- (7) any future claims which *mutual* or *mutual-type* associations of shipowners with variable contributions solely insuring risks listed in paragraphs 6, 12 and 17 of Schedule 1 to the *Regulated Activities Order* may have against their members by way of a call for supplementary contributions, within the following 12 months;
- (8) any future claims which *mutual* or *mutual-type* associations may have against their members by way of a call for supplementary contributions, within the following 12 months, provided that a call can be made on demand and is clear of encumbrances; and
- (9) other legally binding commitments received by the *firm*, provided that the item can be called up on demand and is clear of encumbrances.

3I TIER 2 ANCILLARY OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

- 3I.1 A *firm* must not classify as *Tier 2 own funds*, any *ancillary own funds* items listed in 3H that do not display the features of a *basic own funds* item classified as *Tier 1 own funds* items in accordance with 3A and 3B once that *ancillary own funds* item has been called up and paid in.

3J TIER 3 ANCILLARY OWN FUNDS – LIST OF OWN FUNDS ITEMS

3J.1 If:

- (1) a *firm* has received an *ancillary own funds permission* in respect of an *ancillary own funds* item; and
- (2) that item does not display all of the features set out in 3I,

then the *firm* must classify that item as *Tier 3 ancillary own funds*.

3K TREATMENT OF PARTICIPATIONS IN THE DETERMINATION OF BASIC OWN FUNDS

- 3K.1 A *firm* must, for the purpose of determining its *basic own funds*, reduce its *basic own funds* by the full value of *participations*, as referred to in 3K.6, in a financial and credit institution that exceeds 10% of items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f).
- 3K.2 For the purpose of determining its *basic own funds*, a *firm* must reduce its *basic own funds* by the part of the value of all *participations*, as referred to in 3K.6, in financial and credit institutions, other than *participations* referred to in 3K.1, to the extent the aggregate value exceeds 10% of items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f).
- 3K.3 Notwithstanding 3K.1 and 3K.2, a *firm* must not deduct strategic *participations* as referred to in Solvency Capital Requirement – Standard Formula 3D10 which are included in the calculation of the *group* solvency on the basis of method 1 as set out in the Financial Conglomerates Part or on the basis of method 1 as set out in 11 of the Group Supervision Part.
- 3K.4 A *firm* must apply the deductions set out in 3K.2 on a pro-rata basis to all *participations* to which 3K.2 refers.

3K.5 A firm must make the deductions set out in 3K.1 and 3K.2 from the corresponding tier in which the participation has increased the own funds of the related undertaking as follows:

- (1) holdings of Common Equity Tier 1 items of financial and credit institutions must be deducted from the items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f);
- (2) holdings of Additional Tier 1 instruments of financial and credit institutions must be deducted from the Tier 1 own funds items that display the features set out in 3B that are relevant for restricted Tier 1 own funds items; and
- (3) holdings of Tier 2 instruments of financial and credit institutions must be deducted from the basic own funds items included in 3D.

3K.6 Participations in financial and credit institutions must comprise the following:

- (1) participations which the firm holds in:
 - (a) credit institutions and financial institutions;
 - (b) investment firms; and
- (2) subordinated claims and instruments referred to in Articles 61 to 63 of CRR which a firm holds in respect of the entities defined in 3K.6(1) in which it holds a participation.

3L ADJUSTMENT FOR RING-FENCED FUNDS AND MATCHING ADJUSTMENT PORTFOLIOS

3L.1 Subject to 3L.2, for the purposes of calculating the reconciliation reserve, a firm must reduce the excess of assets over liabilities referred to in 3C by the amount of restricted own funds items within a ring-fenced fund or matching adjustment portfolio in excess of the notional SCR of the ring-fenced fund or matching adjustment portfolio.

Where the firm calculates the SCR using the standard formula, it must calculate the notional SCR of a ring-fenced fund or matching adjustment portfolio in accordance with Solvency Capital Requirement – Standard Formula 9.1.

Where the firm calculates the SCR using an internal model, it must calculate the notional SCR of a ring-fenced fund or matching adjustment portfolio using that internal model, as if the firm pursued only the business included in the ring-fenced fund or matching adjustment portfolio.

3L.2 Where the assets, the liabilities and the risk within a ring-fenced fund are not material, a firm may reduce the reconciliation reserve by the total amount of restricted own funds items.

...

4A ELIGIBILITY AND LIMITS APPLICABLE TO TIERS 1, 2 AND 3

4A.1. As far as compliance with the SCR is concerned, a firm must ensure that:

- (1) Tier 1 own funds items account for at least 50% of the SCR;
- (2) Tier 3 own funds items account for less than 15% of the SCR; and
- (3) the sum of the amounts of Tier 2 own funds items and Tier 3 own funds items do not account for more than 50% of the SCR.

4A.2. As far as compliance with the MCR is concerned, a firm must ensure that:

- (1) Tier 1 own funds items account for at least 80% of the MCR; and
- (2) Tier 2 own funds items do not account for more than 20% of the MCR.

4A.3 For the purposes of 4A.1(1) and 4A.2(1), the sum of the following basic own funds items must make up less than 20% of the total amount of Tier 1 own funds items:

- (1) Tier 1 own funds items that display the features set out in 3B that are relevant for restricted Tier 1 own funds items; and
- (2) items that are included in Tier 1 own funds under the transitional arrangement set out in Transitional Measures 4.1.

4A.4 A firm must apply the quantitative limits set out in 4A to own funds items in respect of which it has received a classification of own funds permission.

5 NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS

5.1 This Chapter does not apply in respect of the following:

- (1) any item which a *firm* intends to include within its *basic own funds* that is not ~~included covered by the lists of own funds items set out in the *own funds lists* Solvency II Regulations~~ but in respect of which ~~may be included in its *basic own funds* only if the *firm* would need to receive a *classification of own funds permission* has received the PRA's approval~~; and
- (2) any item which a *firm* in respect of which a *firm* would need to receive an *ancillary own funds permission* ~~intends to include within its *ancillary own funds*.~~

5.2

...

- (e) for any item referred to in ~~4A.3 Article 82(3) of the *delegated act*~~, provide a draft of a properly reasoned independent accounting opinion from an appropriately qualified individual as to the item's treatment in the *firm's* financial statements;

...

Annex M

Amendments to the Own Funds 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:

...

legacy paid-in preference shares

means paid-in preference shares that meet the following conditions:

- (1) the instruments were issued prior to 18 January 2015;
- (2) on 31 December 2015, the instruments could be used as:
 - (a) core tier one capital in accordance with stage A (Core tier one capital) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
 - (b) perpetual non-cumulative preference shares in accordance with stage B (Perpetual non-cumulative preference shares) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
 - (c) innovative tier one capital in accordance with GENPRU 2.2 of the PRA Handbook as at 31 December 2015; or
 - (d) upper tier two capital in accordance with stage G (Upper tier two capital) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
- (3) the instruments are not otherwise included as Tier 1 own funds, Tier 2 own funds, or Tier 3 own funds in accordance with Own Funds 3.1 to 3.4.

...

3B TIER 1 – FEATURES DETERMINING CLASSIFICATION

...

3B.17

- (1) Paragraph (2) applies where a firm has legacy paid-in preference shares in issue.
- (2) For a period of up to 25 years from 2 January 2026, for the purposes of 3B.1(4) and (14) and 3B.3(3), in the case of basic own funds items referred to in 3A.1(1)(a), a firm should disregard:
 - (a) the terms of those legacy paid-in preference shares; and
 - (b) for basic own funds items referred to in 3A.1(1)(a), any terms governing the basic own funds items which prevent or cancel the declaration or payment of distributions where distributions on legacy paid-in preference shares are in arrears.

...

Annex N

Amendments to the Own Funds and Eligible Liabilities (CRR) Part

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

...

ARTICLE 18 CAPITAL INSTRUMENTS OF THIRD COUNTRY INSURANCE AND REINSURANCE UNDERTAKINGS FOR THE PURPOSES OF ARTICLE 36(3) OF THE CRR

1. Holdings of capital instruments of third country insurance and reinsurance undertakings that are situated in a third country which is not an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation subject to a solvency regime that either before *IP completion day*, has been assessed as non-equivalent to that laid down in Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 227 of that Directive and there has not, in respect of the supervisory regime of that third country, been a later determination of equivalence by the *Treasury* under Article 379A of the Solvency II Delegated Regulation (EU) 2015/35 or by the *PRA* under regulation 19 of the Solvency 2 Regulations 2015, or that has not been assessed, shall be deducted as follows:

...
2. Where ~~the solvency regime of the third country is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation, including the third country's rules on own funds,~~ has:
 - (a) ~~before *IP completion day*, been assessed as equivalent to that laid down in Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 227 of that Directive and that assessment has not, on or after *IP completion day*, been revoked by the *Treasury*, or~~ [deleted]
 - (b) ~~on or after *IP completion day*, been assessed as equivalent to that laid down in the laws of the *United Kingdom* that implemented Title I, Chapter VI of Directive 2009/138/EC according to the procedure set out in Article 379A of the Solvency II Delegated Regulation (EU) 2015/35, or, where assessed as equivalent by the *PRA* according to the procedure in regulation 19 of the Solvency 2 Regulations 2015,~~ [deleted]

holdings of capital instruments of the third-country insurance or reinsurance undertakings shall be treated as holdings of capital instruments of insurance or reinsurance undertakings within the meaning of 'insurance undertaking' and 'reinsurance undertaking' in section 417(1) of *FSMA*.

...

Note: Solvency Capital Requirement – Standard Formula 3B6.6(1) has been amended by the PRA Rulebook: SII Firms: Solvency II Amendment (No 1) Instrument 2024 to correct an error

Annex O

Amendments to the Solvency Capital Requirement – Standard Formula 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:

bankruptcy remote

in relation to *client* assets, means that effective arrangements exist which ensure that those assets will not be available to the creditors of a *CCP* or of a *clearing member* in the event of the insolvency of that *CCP* or *clearing member* respectively, or that the assets will not be available to the *clearing member* to cover losses it incurred following the default of a *client* other than those that provided those assets.

basis risk

means the risk resulting from the situation in which the exposure covered by the *risk-mitigation technique* does not correspond to the risk exposure of the *UK Solvency II firm*.

CCP

means a CCP as defined in point (1) of Article 2 of Regulation (EU) No 648/2012 of the European Parliament and of the Council.

CCP-related transaction

means a contract or a transaction listed in of Article 301(1) of the Counterparty Credit Risk (CRR) Part between a *client* and a *clearing member* that is directly related to a contract or a transaction listed in that paragraph between that *clearing member* and a *CCP*.

clearing member

means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.

client

means a client as defined in point (15) of Article 2 of Regulation (EU) No 648/2012 or an *undertaking* that has established indirect clearing arrangements with a *clearing member* in accordance with Article 4(3) of that Regulation.

collateral arrangement

means an arrangement under which a collateral provider does one of the following:

- (1) transfers full ownership of the collateral to the collateral taker for the purposes of securing or otherwise covering the performance of a relevant obligation; or
- (2) provides collateral by way of security in favour of, or to, a collateral taker, and the legal ownership of the collateral remains with the collateral provider or a custodian when the security right is established.

continuity options

means all legal or contractual *policyholder* rights which allow that *policyholder* to fully or partly establish, renew, increase, extend or resume insurance or *reinsurance* cover.

covered bond

means a bond that is issued by a *credit institution* which has its registered office in the *UK* or an *EEA State* and is subject by law to special public supervision designed to protect bondholders and in particular protection under which sums deriving from the issue of the bond must be invested in conformity with the law in assets which, during the whole period of validity of the bond, are capable of covering claims attaching to the bond and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

currency risk

means the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

disability-morbidity risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.

discontinuance

means, in relation to an insurance *policy*, *surrender*, lapse without value, making a *contract of insurance* paid-up, automatic non-forfeiture provisions or exercising other *discontinuity options* or not exercising *continuity options*.

discontinuity options

means all legal or contractual *policyholder* rights which allow that *policyholder* to fully or partly terminate, *surrender*, decrease, restrict or suspend insurance cover or permit the insurance *policy* to lapse.

equity risk

means the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

health underwriting risk

means

- (1) *expense risk*;
- (2) *NSLT health premium and reserve risk*; and
- (3) *health catastrophe risk*.

interest-rate risk

means the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

lapse risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.

life-catastrophe risk

means the risk of loss, or of adverse change, in the value of insurance obligations, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

market risk concentrations

means the additional risks to a firm stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

pool exposure of type A

means the risk ceded by a firm to a pooling arrangement where the firm is not a party to that pooling arrangement.

pool exposure of type B

means the risk ceded by a firm to another member of a pooling arrangement, where the firm is a party to that pooling arrangement.

pool exposure of type C

means the risk ceded by a firm which is a party to a pooling arrangement to another firm which is not a member of that pooling arrangement.

pooling arrangement

means an arrangement whereby several undertakings which are UK Solvency II undertakings, third country insurance undertakings or third country reinsurance undertakings agree to share identified insurance risks in defined proportions, but the parties insured by the members of the pooling arrangement are not themselves members of the pooling arrangement.

property risk

means the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate.

resecuritisation

has the meaning given in Securitisation 1.2.

securitisation

has the meaning given in Securitisation 1.2.

securitisation position

has the meaning given in Securitisation 1.2.

senior securitisation position

means a senior securitisation position within the meaning of Article 242(6) of the CRR.

standard equity capital charge

means the standard capital requirement for ~~equity risk~~ equity risk calculated in accordance with ~~3Dthe Solvency II Regulations~~ before any symmetric adjustment is applied.

STS securitisation

means:

- (1) an STS securitisation as defined by regulation 9 of the Securitisation Regulations; 2024 (SI 2024/102);

(2) an overseas STS securitisation as defined by regulation 12(2) of the Securitisation Regulations 2024 (SI 2024/102); or

(3) a qualifying EU securitisation as defined by regulation 12(3) of the Securitisation Regulations 2024 (SI 2024/102).

symmetric adjustment

means the symmetric adjustment that may be applied to the *standard equity capital charge* in accordance with 3D.12the Solvency II Regulations.

UK Solvency II undertaking

means a *UK Solvency II firm* or Lloyd's.

1A GENERAL REQUIREMENTS ON THE USE OF CREDIT ASSESSMENTS

1A.1 A firm may use an external credit assessment for the calculation of the SCR in accordance with the standard formula only where it has been issued by an external credit assessment institution or endorsed by an external credit assessment institution in accordance with Regulation (EC) No 1060/2009.

1A.2 A firm must nominate one or more external credit assessment institutions to be used for the calculation of the SCR according to the standard formula.

1A.3 A firm must use credit assessments consistently and must not use such assessments selectively.

1A.4 When using credit assessments, a firm must comply with all of the following requirements:

- (1) where a firm decides to use the credit assessments produced by a nominated external credit assessment institution for a certain class of items, it must use those credit assessments consistently for all items belonging to that class;
- (2) where a firm decides to use the credit assessments produced by a nominated external credit assessment institution, it must use them in a continuous and consistent way over time;
- (3) a firm must only use nominated external credit assessment institution credit assessments that take into account all amounts of principal and interest owed to it;
- (4) subject to 1C.1, where only one credit assessment is available from a nominated external credit assessment institution for a rated item, a firm must use that credit assessment to determine the capital requirements for that item;
- (5) where two credit assessments are available from nominated external credit assessment institutions and they correspond to different parameters for a rated item, a firm must use the assessment generating the higher capital requirement;
- (6) where more than two credit assessments are available from nominated external credit assessment institutions for a rated item, a firm must use the two assessments generating the two lowest capital requirements, provided that:
 - (a) if the two lowest capital requirements are different, the firm must use the assessment generating the higher capital requirement of those two credit assessments; and
 - (b) if the two lowest capital requirements are the same, the firm must use the assessment generating that capital requirement; and
- (7) where available, a firm must use both solicited and unsolicited credit assessments.

1A.5 Where an item is part of the larger or more complex exposures of a *firm*, the *firm* must produce its own internal credit assessment of the item and allocate it to a *credit quality step*, provided that where the *firm*'s own internal credit assessment generates a lower capital requirement than the one generated by the credit assessments available from nominated *external credit assessment institutions*, then the *firm*'s own internal credit assessment must not be taken into account for the purposes of this Part.

1A.6 For the purposes of 1A.5, the larger or more complex exposures of a *firm* must include *securitisation positions* as referred to in 3D21.8 and 3D21.9 and *resecuritisation positions*.

1B ISSUERS AND ISSUE CREDIT ASSESSMENT

1B.1 Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, a *firm* must use that credit assessment.

1B.2 Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the *issuer*, a *firm* must use that credit assessment in either of the following cases:

- (1) it produces the same or higher capital requirement than would otherwise be the case and the exposure in question ranks *pari passu* or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that *issuer*, as relevant; or
- (2) it produces the same or lower capital requirement than would otherwise be the case and the exposure in question ranks *pari passu* or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that *issuer*, as relevant.

In all other cases, a *firm* must treat the exposure as if there is no credit assessment by a nominated *external credit assessment institution* available for it.

1B.3 A *firm* must not use credit assessments for *issuers* within a corporate *group* as the credit assessment for another *issuer* within the same corporate *group*.

1C DOUBLE CREDIT RATING FOR SECURITISATION POSITIONS

1C.1 Notwithstanding 1A.4(4), where only one credit assessment is available from a nominated *external credit assessment institution* for a *securitisation position*, a *firm* must not use that credit assessment and the *firm* must derive the capital requirements for that item as if no credit assessment by a nominated *external credit assessment institution* is available.

2 STRUCTURE OF THE SCR STANDARD FORMULA

...

2.2 Notwithstanding 2.1, a *firm* with a *ring-fenced fund* (other than a *ring-fenced fund* in respect of which the reconciliation reserve has been reduced by the total amount of *restricted own funds* items in accordance with Own Funds 3L.2) or *matching adjustment portfolio* must make an adjustment to the calculation of its *SCR* following the method set out in 9.

2.3

- (1) A *firm* must calculate its *SCR* on the basis of each of the underlying assets of *collective investment undertakings* and other investments packaged as funds.
- (2) Subject to (6), a *firm* must also apply the *look-through approach* to the following:
 - (a) indirect exposures to *market risk* other than *collective investment undertakings* and investments packaged as funds;

- (b) indirect exposures to *underwriting risk*; and
- (c) indirect exposures to *counterparty risk*.
- (3) Subject to 7.2, if a *firm* cannot apply the *look-through approach* to *collective investment undertakings* or investments packaged as funds, a *firm* may calculate its *SCR* on the basis of the target underlying asset allocation or, if the target underlying asset allocation is not available to the *firm*, on the basis of the last reported asset allocation, of the *collective investment undertaking* or fund, provided that, in either case:
 - (a) the underlying assets are managed in accordance with that target allocation or last reported asset allocation, as applicable; and
 - (b) exposures and risks are not expected to vary materially over a short period of time.
- (4) For the purposes of the calculation in (3), a *firm* may use data groupings provided that they:
 - (a) enable all relevant sub-modules and scenarios of the *standard formula* to be calculated in a prudent manner; and
 - (b) do not apply to more than 20% of the total value of the *firm's* assets.
- (5) For the purposes of determining the percentage of assets where data groupings are used as referred to in (4)(b), a *firm* must not take into account underlying assets of the *collective investment undertaking*, or the investments packaged as funds, backing unit-linked liabilities or *index-linked liabilities* for which the *market risk* is borne by the *policyholders*.
- (6) (2) does not apply to investments in *related undertakings*, other than investments in respect of which all of the following requirements are met:
 - (a) the main purpose of the *related undertaking* is to hold and manage assets on behalf of the *participating undertaking*;
 - (b) the *related undertaking* supports the operations of the *participating undertaking* related to investment activities, following a specific and documented investment mandate; and
 - (c) the *related undertaking* does not carry on any significant business other than investing for the benefit of the *participating undertaking*.

2A ANNEXES

1. The Annexes referred to in 3A, 3C and 7 can be found [here](#).

3 THE BASIC SCR

3.1 ...

- (1) ...
 - (c) ~~the *health underwriting risk*~~ *health underwriting risk* module;
 - ...
 - (e) ~~the *counterparty*~~ *counterparty* default risk module; and
- (2) ...
 - (a) 'SCRi' and 'SCRj' denote the non-life *underwriting risk* module, the life *underwriting risk* module, the ~~*health underwriting risk*~~ *health underwriting risk* module, the *market risk* module and the ~~*counterparty*~~ *counterparty* default risk module;

...

(d) ...

; and

- (3) include a risk module for intangible asset risk, and a firm must calculate this in accordance with the following formula:

$$BasicSCR = \sqrt{\sum_{i,j} Corr_{i,j} \cdot SCR_i \cdot SCR_j} + SCR_{intangibles}$$

where:

- (a) in the summation, $Corr_{i,j}$, SCR_i and SCR_j are specified as set out in (2); and
- (b) $SCR_{intangibles}$ denotes the capital requirement for intangible asset risk referred to in 3F1.

...

- 3.2A For the purposes of calculating the capital requirements in 3.1(1) for non-life underwriting risk, life underwriting risk and health underwriting risk, a firm must apply:

- (1) the non-life underwriting risk module to non-life insurance and reinsurance obligations other than health insurance obligations and health reinsurance obligations;
- (2) the life underwriting risk module to life insurance and reinsurance obligations other than health insurance obligations and health reinsurance obligations; and
- (3) the health underwriting risk module to health insurance obligations and health reinsurance obligations.

...

3.3A

- (1) Where the calculation of a module or sub-module of the basic SCR is based on the impact of a scenario on the basic own funds of a firm, the firm must make all of the following assumptions in that calculation:
- (a) the scenario does not change the amount of the risk margin included in technical provisions;
- (b) the scenario does not change the value of deferred tax assets and liabilities;
- (c) the scenario does not change the value of future discretionary benefits included in technical provisions; and
- (d) no management actions are taken by the firm during the scenario.
- (2) In calculating technical provisions arising as a result of determining the impact of a scenario on its basic own funds as referred to in (1), a firm must not change the value of future discretionary benefits, and must take account of all of the following:
- (a) without prejudice to (1)(d), future management actions following the scenario, provided they comply with Technical Provisions – Further Requirements 8; and
- (b) any material adverse impact of the scenario or the future management actions referred to in (a) on the likelihood that policyholders will exercise options relating to contracts of insurance.
- (3) A firm may use simplified methods to calculate the technical provisions arising as a result of determining the impact of a scenario as referred to in (1), provided that the simplified

method does not lead to a misstatement of the SCR that could influence the decision-making or the judgement of the user of the information relating to the SCR, unless the simplified calculation produces an SCR which exceeds the SCR that results from the calculation according to the standard formula.

- (4) In calculating the assets and liabilities arising as a result of determining the impact of a scenario as referred to in (1), a firm must take account of the impact of the scenario on the value of any relevant risk mitigation instruments held by the firm which comply with 3G2, 3G3 and 3G5 to 3G9.
- (5) Where the scenario would result in an increase in its basic own funds, a firm must base the calculation of the module or sub-module on the assumption that the scenario has no impact on its basic own funds.

...

3.6 For the purposes of 3.1(1)(a), the capital requirement for the non-life *underwriting risk* module is a combination of the capital requirements for ~~at least~~ the following sub-modules:

- (1) ~~at the non-life premium and reserve risk~~non-life premium and reserve risk sub-module covering ~~non-life premium and reserve risk~~the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements; and
- (2) ~~at the non-life catastrophe risk~~non-life catastrophe risk sub-module covering ~~non-life catastrophe risk~~the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events; and
- (3) the non-life lapse risk sub-module covering non-life lapse risk.

3.6A

- (1) A firm must calculate the capital requirement for non-life underwriting risk in accordance with the following formula:

$$SCR_{non-life} = \sqrt{\sum_{i,j} CorrNL_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where:

- (a) the sum covers all possible combinations (i, j) of the sub-modules set out in 3.6;
- (b) CorrNL_(i,j) denotes the correlation coefficient for non-life underwriting risk for sub-modules i and j; and
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j, respectively.
- (2) The correlation coefficient CorrNL_(i,j) referred to in (1) denotes the item set out in row i and column j of the following correlation matrix:

<u><i>i \ j</i></u>	<u>Non-life premium and reserve</u>	<u>Non-life catastrophe</u>	<u>Non-life lapse</u>
<u>Non-life premium and reserve</u>	<u>1</u>	<u>0.25</u>	<u>0</u>
<u>Non-life catastrophe</u>	<u>0.25</u>	<u>1</u>	<u>0</u>
<u>Non-life lapse</u>	<u>0</u>	<u>0</u>	<u>1</u>

...

3.8 The life *underwriting risk* module must be calculated as:

(1) a combination of the capital requirements for the following sub-modules

- (a) ~~mortality risk~~ mortality risk
- (b) ~~longevity risk~~ longevity risk;
- (c) ~~disability-morbidity risk~~ disability-morbidity risk;
- (d) ~~life expense risk~~ expense risk;
- (e) ~~revision risk~~ revision risk;
- (f) ~~lapse risk~~ lapse risk; and
- (g) ~~life catastrophe risk~~ life-catastrophe risk;

(2) ...

where: 'SCR_i' and 'SCR_j' denote the ~~mortality risk~~ mortality risk sub-module, the ~~longevity risk~~ longevity risk sub-module, the ~~disability-morbidity risk~~ disability-morbidity risk sub-module, the ~~life expense risk~~ expense risk sub-module, the ~~revision risk~~ revision risk sub-module, the ~~lapse risk~~ lapse risk sub-module and the ~~life catastrophe risk~~ life-catastrophe risk sub-module; and

'i,j' means that the sum of the different terms should cover all possible combinations of 'i' and 'j'; and

'Corr_{i,j}' denotes the correlation coefficient for life *underwriting risk* for sub-modules *i* and *j*.

(3) The correlation coefficient Corr_{i,j} referred to in (2) must be equal to the item set out in row *i* and column *j* of the following correlation matrix:

<u><i>i</i></u>	<u>Mortality</u>	<u>Longevity</u>	<u>Disability</u>	<u>Life expense</u>	<u>Revision</u>	<u>Lapse</u>	<u>Life catastrophe</u>
<u>Mortality</u>	1	<u>-0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0</u>	<u>0</u>	<u>0.25</u>
<u>Longevity</u>	<u>-0.25</u>	1	<u>0</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0</u>
<u>Disability</u>	<u>0.25</u>	<u>0</u>	1	<u>0.5</u>	<u>0</u>	<u>0</u>	<u>0.25</u>
<u>Life expense</u>	<u>0.25</u>	<u>0.25</u>	<u>0.5</u>	1	<u>0.5</u>	<u>0.5</u>	<u>0.25</u>
<u>Revision</u>	<u>0</u>	<u>0.25</u>	<u>0</u>	<u>0.5</u>	1	<u>0</u>	<u>0</u>
<u>Lapse</u>	<u>0</u>	<u>0.25</u>	<u>0</u>	<u>0.5</u>	<u>0</u>	1	<u>0.25</u>
<u>Life catastrophe</u>	<u>0.25</u>	<u>0</u>	<u>0.25</u>	<u>0.25</u>	<u>0</u>	<u>0.25</u>	1

3.9 For the purposes of 3.8:

- (1) the ~~mortality risk~~mortality risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilitiesmortality risk;
- (2) the ~~longevity risk~~longevity risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilitieslongevity risk;
- (3) the ~~disability-morbidity risk~~disability-morbidity risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity ratesdisability-morbidity risk;
- (4) the ~~life-expense risk~~expense risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing contracts of insurance or reinsurance contractslife expense risk;
- (5) the ~~revision risk~~revision risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insuredrevision risk;
- (6) the ~~lapse risk~~lapse risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenderslapse risk; and
- (7) the ~~life-catastrophe risk~~life-catastrophe risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular eventslife-catastrophe risk.

3.10 For the purposes of 3.1(1)(c):

- (1) a firm must calculate the capital requirement for the ~~health-underwriting risk~~health underwriting risk module ...; and
- (2) the ~~health-underwriting risk~~health underwriting risk module must cover at least health underwriting risk the risk of loss, or of adverse change, in the value of insurance liabilities resulting from:
 - (a) ~~changes in the level, trend, or volatility of the expenses incurred in servicing contracts of insurance or reinsurance contracts;~~[deleted]
 - (b) ~~fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements at the time of provisioning; and~~[deleted]
 - (c) ~~the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.~~[deleted]

...

3.10A

- (1) The health underwriting risk module must consist of all of the following sub-modules:
 - (a) the NSLT health insurance underwriting risk sub-module;

- (b) the SLT health insurance underwriting risk sub-module; and
- (c) the health catastrophe risk sub-module.
- (2) A firm must calculate the capital requirement for health underwriting risk in accordance with the following formula:

$$SCR_{health} = \sqrt{\sum_{i,j} CorrH_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where:

- (a) the sum covers all possible combinations (i, j) of the sub-modules set out in (1);
- (b) CorrH_(i,j) denotes the correlation coefficient for health underwriting risk for sub-modules i and j; and
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j, respectively.
- (3) The correlation coefficient CorrH_(i,j) referred to in (2) denotes the item set out in row i and column j of the following correlation matrix:

<u>ii</u>	<u>NSLT health underwriting</u>	<u>SLT health underwriting</u>	<u>Health catastrophe</u>
<u>NSLT health underwriting</u>	<u>1</u>	<u>0.5</u>	<u>0.25</u>
<u>SLT health underwriting</u>	<u>0.5</u>	<u>1</u>	<u>0.25</u>
<u>Health catastrophe</u>	<u>0.25</u>	<u>0.25</u>	<u>1</u>

3.10B A firm must apply:

- (1) the NSLT health underwriting risk sub-module to health insurance obligations and health reinsurance obligations included in lines of business 1, 2, 3, 13, 14, 15 and 25;
- (2) the SLT health underwriting risk sub-module to health insurance obligations and health reinsurance obligations included in lines of business 29, 33 and 35; and
- (3) the health catastrophe risk sub-module to health insurance obligations and health reinsurance obligations.

3.11 For the purposes of 3.1(1)(d):

...

- (2) the capital requirement for the *market risk* module is a combination of the capital requirements for at least the following sub-modules:
- (a) ~~an interest-rate risk~~interest-rate risk sub-module covering interest rate risk~~the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates;~~
- (b) ~~an equity risk~~equity risk sub-module covering equity risk~~the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities;~~

- (c) a ~~property risk~~property risk sub-module covering ~~property risk~~property risk the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate;
- (d) a ~~spread risk~~spread risk sub-module covering ~~spread risk~~spread risk the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;
- (e) a ~~currency risk~~currency risk sub-module covering ~~currency risk~~currency risk the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates; and
- (f) a ~~market risk concentrations~~market risk concentrations sub-module covering ~~market risk concentrations~~market risk concentrations additional risks to a firm stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

3.11A

- (1) A firm must calculate the capital requirement for *market risk* in accordance with the following formula:

$$SCR_{market} = \sqrt{\sum_{i,j} Corr_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where:

- (a) the sum covers all possible combinations i, j of sub-modules set out in 3.11(2);
- (b) $Corr_{(i,j)}$ denotes the correlation coefficient for *market risk* for sub-modules i and j ; and
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j , respectively.
- (2) The correlation coefficient $Corr_{(i,j)}$ referred to in (1) must be equal to the item set out in row i and column j of the following correlation matrix:

<u>$i \backslash j$</u>	<u>Interest rate</u>	<u>Equity</u>	<u>Property</u>	<u>Spread</u>	<u>Concentration</u>	<u>Currency</u>
<u>Interest rate</u>	1	A	A	A	0	0.25
<u>Equity</u>	A	1	0.75	0.75	0	0.25
<u>Property</u>	A	0.75	1	0.5	0	0.25
<u>Spread</u>	A	0.75	0.5	1	0	0.25
<u>Concentration</u>	0	0	0	0	1	0
<u>Currency</u>	0.25	0.25	0.25	0.25	0	1

- (3) The coefficient A in the table in (2) must be equal to 0 where the capital requirement for *interest-rate risk* set out in 3D4 is the capital requirement referred to in 3D4.1(1). In all other cases, the coefficient A must be equal to 0.5.

3.12 For the purposes of 3.1(1)(c), the ~~counterparty~~counterparty default risk module:

- (1) must reflect possible losses due to unexpected default, or deterioration in the credit standing, of the ~~counterparties~~counterparties and debtors of the *firm* over the following 12 months;
- (2) must cover risk-mitigating contracts, such as *reinsurance* arrangements, ~~securitisations~~securitisations and *derivatives*, and receivables from intermediaries, as well as any other credit exposures which are not covered in the ~~spread risk~~spread risk sub-module;
- ...
- (4) for each ~~counterparty~~counterparty, must take account of the overall ~~counterparty~~counterparty risk exposure of the *firm* to that ~~counterparty~~counterparty, irrespective of the legal form of the ~~counterparty's~~counterparty's contractual obligations to the *firm*.

3.13 A firm must calculate the capital requirement for *counterparty* default risk in accordance with the following formula:

$$SCR_{def} = \sqrt{SCR_{(def,1)}^2 + 1.5 \cdot SCR_{(def,1)} \cdot SCR_{(def,2)} + SCR_{(def,2)}^2}$$

where:

- (a) $SCR_{(def,1)}$ denotes the capital requirement for *counterparty* default risk on type 1 exposures as set out in 3.14; and
- (b) $SCR_{(def,2)}$ denotes the capital requirement for *counterparty* default risk on type 2 exposures as set out in 3.15.

3.14 A firm must treat exposures in relation to the following as type 1 exposures:

- (1) risk-mitigation contracts including *reinsurance* arrangements, *special purpose vehicles* and *insurance securitisations*;
- (2) cash at bank as referred to in Schedule 3 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008/410 as amended from time to time;
- (3) deposits with ceding undertakings where the number of single name exposures does not exceed 15;
- (4) commitments received by the *firm* which have been called up but are unpaid, where the number of single name exposures does not exceed 15, including called up but unpaid ordinary share capital and *preference shares*, called up but unpaid legally binding commitments to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent *basic own fund* item for *mutual* and *mutual-type undertakings*, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which *mutual or mutual-type associations* may have against their members by way of a call for supplementary contributions;
- (5) legally binding commitments which the *firm* has provided or arranged and which may create payment obligations depending on the credit standing or default of a *counterparty* including guarantees, letters of credit, and letters of comfort; and
- (6) *derivatives* other than credit *derivatives* covered in the *spread risk* sub-module.

3.15 A firm must treat all credit exposures which are not covered in the *spread risk* sub-module and which are not type 1 exposures as type 2 exposures, including the following:

- (1) receivables from intermediaries;
- (2) *policyholder* debtors;

- (3) mortgage loans which meet the requirements in 3E3.2 to 3E3.13;
- (4) deposits with ceding undertakings where the number of single name exposures exceeds 15; and
- (5) commitments received by the *firm* which have been called up but are unpaid as referred to in 3.14(4), where the number of single name exposures exceeds 15.
- 3.16 A *firm* may, at its discretion, consider all exposures referred to in 3.15(4) and (5) as type 1 exposures, regardless of the number of single name exposures.
- 3.17 Where a letter of credit, a guarantee or an equivalent *risk-mitigation technique* has been provided to fully secure an exposure and this *risk mitigation technique* complies with the requirements of 3G2, 3G3 and 3G5 to 3G9, then the *firm* may treat the provider of that letter of credit, guarantee or equivalent *risk mitigation technique* as the *counterparty* on the secured exposure for the purposes of assessing the number of single name exposures.
- 3.18 A *firm* must not include the following *credit risks* in the *counterparty* default risk module:
- (1) the *credit risk* transferred by a *credit derivative*;
 - (2) the *credit risk* on debt issuance by *special purpose vehicles*;
 - (3) the *underwriting risk* of credit and suretyship insurance or *reinsurance* as referred to in *lines of business* 9, 21 and 28;
 - (4) the *credit risk* on mortgage loans which do not meet the requirements in 3E3.2 to 3E3.9; and
 - (5) the *credit risk* on assets posted as collateral to a *CCP* or a *clearing member* that are *bankruptcy remote*.
- 3.19 A *firm* must treat investment guarantees on *contracts of insurance* provided to *policyholders* by a third party and for which the *firm* would be liable should the third party default as *derivatives* in the *counterparty* default risk module.

3A NON-LIFE UNDERWRITING RISK MODULE

3A1 NON-LIFE PREMIUM AND RESERVE RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for *non-life premium and reserve risk* in accordance with the following formula:
- $$SCR_{nl\ prem\ res} = 3 \cdot \sigma_{nl} \cdot V_{nl}$$
- where:
- (1) σ_{nl} denotes the standard deviation for *non-life premium and reserve risk* determined in accordance with 3A4; and
 - (2) V_{nl} denotes the volume measure for *non-life premium and reserve risk* determined in accordance with 3A2.

3A2 VOLUME MEASURE FOR NON-LIFE PREMIUM AND RESERVE RISK

1. A *firm* must calculate the volume measure for *non-life premium and reserve risk* as equal to the sum of the volume measures for *premium* and *reserve risk* of the segments set out in 3A3.
2. For all segments set out in 3A3 a *firm* must calculate the volume measure of a particular segment *s* in accordance with the following formula:

$$V_s = (V_{(prem,s)} + V_{(res,s)}) \cdot (0.75 + 0.25 \cdot DIV_s)$$

where:

- (1) $V_{(prem,s)}$ denotes the volume measure for *premium* risk of segment s ;
- (2) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s ; and
- (3) DIV_s denotes the factor for geographical diversification of segment s .

3. For all segments set out in 3A3, a *firm* must calculate the volume measure for *premium* risk of a particular segment s in accordance with the following formula:

$$V_{(prem,s)} = \max[P_s; P_{(last,s)}] + FP_{(existing,s)} + FP_{(future,s)}$$

where:

- (1) P_s denotes an estimate of the *premiums* to be earned by the *firm* for segment s during the following 12 months;
- (2) $P_{(last,s)}$ denotes the *premiums* earned by the *firm* for segment s during the last 12 months;
- (3) $FP_{(existing,s)}$ denotes the expected present value of *premiums* to be earned by the *firm* for segment s after the following 12 months for existing *contracts of insurance*; and
- (4) $FP_{(future,s)}$ denotes the following amount with respect to *contracts of insurance* where the initial recognition date falls in the following 12 months:
 - (a) for all such *contracts of insurance* with an initial term of one year or less, the expected present value of *premiums* to be earned by the *firm* for segment s , but excluding the *premiums* to be earned during the 12 months after the initial recognition date; and
 - (b) for all such *contracts of insurance* with an initial term of more than one year, the amount equal to 30% of the expected present value of *premiums* to be earned by the *firm* for segment s after the following 12 months.

4. For all segments set out in 3A3, a *firm* may, as an alternative to the calculation set out in 3A2.3, choose to calculate the volume measure for *premium* risk of a particular segment s in accordance with the following formula:

$$V_{(prem,s)} = P_s + FP_{(existing,s)} + FP_{(future,s)}$$

provided that all of the following requirements are met:

- (1) the *governing body* of the *firm* has decided that its *earned premiums* for segment s during the following 12 months will not exceed P_s ;
- (2) the *firm* has established effective control mechanisms to ensure that the limits on *earned premiums* referred to in (1) will be met; and
- (3) the *firm* has informed the PRA in writing about the decision referred to in (1) and the reasons for it.

For the purposes of this calculation, the terms P_s , $FP_{(existing,s)}$ and $FP_{(future,s)}$ must be calculated in accordance with 3A2.3(1), (3) and (4).

5. For the purposes of the calculations set out in 3A2.3 and 3A2.4, *premiums* must be net, after deduction of *premiums* for *reinsurance contracts*, except for *premiums* for the following types of *reinsurance contracts* which must not be deducted:

- (1) *premiums* in relation to non-insurance events or settled insurance claims that are not accounted for in the cash-flows referred to in Technical Provisions – Further Requirements 23.3; and

(2) premiums for reinsurance contracts that do not comply with 3G2, 3G3, 3G5 and 3G7.

6. For all segments set out in 3A3, a *firm* must calculate the volume measure for reserve risk of a particular segment as equal to the *best estimate* of the provisions for claims outstanding for the segment, after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, provided that:

(1) the reinsurance contracts or special purpose vehicles comply with 3G2, 3G3, 3G5 and 3G7; and

(2) the volume measure must not be a negative amount.

7. For all segments set out in 3A3, the default factor for geographical diversification of a particular segment must be either 1 or calculated in accordance with 3A5.

3A3 SEGMENTATION OF NON-LIFE INSURANCE AND REINSURANCE OBLIGATIONS AND STANDARD DEVIATIONS FOR THE NON-LIFE PREMIUM AND RESERVE RISK SUB-MODULE

	<u>Segment</u>	<u>Lines of business that the segment consists of</u>	<u>Standard deviation for gross premium risk of the segment</u>	<u>Standard deviation for reserve risk of the segment</u>
<u>1</u>	<u>Motor vehicle liability insurance and proportional reinsurance</u>	<u>4 and 16</u>	<u>10%</u>	<u>9%</u>
<u>2</u>	<u>Other motor insurance and proportional reinsurance</u>	<u>5 and 17</u>	<u>8%</u>	<u>8%</u>
<u>3</u>	<u>Marine, aviation and transport insurance and proportional reinsurance</u>	<u>6 and 18</u>	<u>15%</u>	<u>11%</u>
<u>4</u>	<u>Fire and other damage to property insurance and proportional reinsurance</u>	<u>7 and 19</u>	<u>8%</u>	<u>10%</u>
<u>5</u>	<u>General liability insurance and proportional reinsurance</u>	<u>8 and 20</u>	<u>14%</u>	<u>11%</u>
<u>6</u>	<u>Credit and suretyship insurance and proportional</u>	<u>9 and 21</u>	<u>19%</u>	<u>17.2%</u>

	<u>reinsurance</u>			
<u>7</u>	<u>Legal expenses insurance and proportional reinsurance</u>	<u>10 and 22</u>	<u>8.3%</u>	<u>5.5%</u>
<u>8</u>	<u>Assistance and its proportional reinsurance</u>	<u>11 and 23</u>	<u>6.4%</u>	<u>22%</u>
<u>9</u>	<u>Miscellaneous financial loss insurance and proportional reinsurance</u>	<u>12 and 24</u>	<u>13%</u>	<u>20%</u>
<u>10</u>	<u>Non-proportional casualty reinsurance</u>	<u>26</u>	<u>17%</u>	<u>20%</u>
<u>11</u>	<u>Non-proportional marine, aviation and transport reinsurance</u>	<u>27</u>	<u>17%</u>	<u>20%</u>
<u>12</u>	<u>Non-proportional property reinsurance</u>	<u>28</u>	<u>17%</u>	<u>20%</u>

3A4 STANDARD DEVIATION FOR NON-LIFE PREMIUM AND RESERVE RISK

1. A firm must calculate the standard deviation for non-life premium and reserve risk in accordance with the following formula:

$$\sigma_{nl} = \frac{1}{V_{nl}} \cdot \sqrt{\sum_{s,t} \text{Corr}S_{(s,t)} \cdot \sigma_s \cdot V_s \cdot \sigma_t \cdot V_t}$$

where:

- (1) V_{nl} denotes the volume measure for non-life premium and reserve risk;
 - (2) the sum covers all possible combinations (s, t) of the segments set out in 3A3;
 - (3) $\text{Corr}S_{(s,t)}$ denotes the correlation coefficient for non-life premium and reserve risk for segment s and segment t set out in Annex IV;
 - (4) σ_s and σ_t denote standard deviations for non-life premium and reserve risk of segments s and t respectively; and
 - (5) V_s and V_t denote volume measures for premium and reserve risk of segments s and t, referred to in 3A2, respectively.
2. For all segments set out in 3A3, a firm must calculate the standard deviation for non-life premium and reserve risk of a particular segment s in accordance with the following formula:

$$\sigma_s = \frac{\sqrt{\sigma^2_{(prem,s)} \cdot V^2_{(prem,s)} + \sigma_{(prem,s)} \cdot V_{(prem,s)} \cdot \sigma_{(res,s)} \cdot V_{(res,s)} + \sigma^2_{(res,s)} \cdot V^2_{(res,s)}}}{V_{(prem,s)} + V_{(res,s)}}$$

where:

- (1) $\sigma_{(prem,s)}$ denotes the standard deviation for non-life *premium* risk of segment *s* determined in accordance with 3A4.3;
 - (2) $\sigma_{(res,s)}$ denotes the standard deviation for non-life reserve risk of segment *s* as set out in 3A3;
 - (3) $V_{(prem,s)}$ denotes the volume measure for *premium* risk of segment *s* referred to in 3A2; and
 - (4) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment *s* referred to in 3A2.
3. For all segments set out in 3A3, a *firm* must calculate the standard deviation for non-life *premium* risk of a particular segment as equal to the product of the standard deviation for non-life gross *premium* risk of the segment set out in 3A3 and the adjustment factor for non-proportional *reinsurance*.
 4. For segments 1, 4 and 5 set out in 3A3 the adjustment factor for non-proportional *reinsurance* must be equal to 80%. For all other segments set out in 3A3 the adjustment factor for non-proportional *reinsurance* must be equal to 100%.

3A5 FACTOR FOR GEOGRAPHICAL DIVERSIFICATION OF PREMIUM AND RESERVE RISK

1. Subject to 3A5.5, 3A5.6 and 3A5.7, for all segments set out in 3A3 and 3C4, a *firm* must calculate the factor for geographical diversification of a particular segment *s* referred to in 3A2 and 3C3 in accordance with the following formula:

$$DIV_s = \frac{\sum_r (V_{(prem,r,s)} + V_{(res,r,s)})^2}{(\sum_r (V_{(prem,r,s)} + V_{(res,r,s)}))^2}$$

where:

- (1) each of the sums cover all the geographical regions set out in 3A5.8;
 - (2) $V_{(prem,r,s)}$ denotes the volume measure for *premium* risk of the segment *s* and the region *r*, and
 - (3) $V_{(res,r,s)}$ denotes volume measure for reserve risk of the segment *s* and the region *r*.
2. For all segments set out in 3A3 and 3C4 and all geographical regions set out in 3A5.8, a *firm* must calculate the volume measure for *premium* risk of a particular segment *s* and a particular region *r* in the same way as the volume measure for non-life or *NSLT health premium* risk of the segment *s* as referred to in 3A2 and 3C3, but taking into account only insurance and *reinsurance* obligations where the underlying risk is situated in the region *r*.
 3. For all segments set out in 3A3 and 3C4 and all geographical regions set out in 3A5.8 a *firm* must calculate the volume measure for reserve risk of a particular segment *s* and a particular region *r* in the same way as the volume measure for non-life or *NSLT health* reserve risk of the segment *s* as referred to in 3A2 and 3C3, but taking into account only insurance and *reinsurance* obligations where the underlying risk is situated in the region *r*.
 4. For the purpose of the calculations set out in 3A5.2 and 3A5.3, the following criteria apply:
 - (1) In the case of non-life insurance, the region in which a risk is situated is,

- (a) if the insurance relates to a building or to a building and its contents (so far as the contents are covered by the same *policy*), to the region in which the building is situated;
- (b) if the insurance relates to a vehicle of any type, to the region of registration;
- (c) in the case of *policies* of a duration of four *months* or less covering travel or holiday risks (whatever the class concerned), to the region in which the *policyholder* took out the *policy*; or
- (d) in a case not covered by (a) to (c):
- (i) if the *policyholder* is an individual, to the region in which the individual has their habitual residence at the date when the *contract of insurance* is entered into; and
- (ii) otherwise, to the region in which the establishment of the *policyholder* to which the *policy* relates is situated and that date; and
- (2) In the case of life insurance, the region of the commitment, in relation to a commitment entered into at any date, is
- (a) if the *policyholder* is an individual, the region in which the individual had their habitual residence at that date; or
- (b) if the *policyholder* is not an individual, the region in which the establishment of the *policyholder* to which the commitment relates was situated at that date;
- where for these purposes 'commitment' means a commitment represented by *contracts of insurance* of a prescribed class.
5. Notwithstanding 3A5.1, the factor for geographical diversification must be equal to 1 for segments 6, 10, 11 and 12 set out in 3A3 and for segment 4 set out in 3C4.
6. Notwithstanding 3A5.1, the factor for geographical diversification for a segment set out in 3A3 must be equal to 1 if a *firm* uses an *undertaking specific parameter* for the standard deviation for non-life *premium* risk or non-life reserve risk of the segment to calculate the *non-life premium and reserve risk* sub-module.
7. Notwithstanding 3A5.1, the factor for geographical diversification for a segment set out in 3C4 must be equal to 1 if a *firm* uses an *undertaking specific parameter* for the standard deviation for *NSLT health premium* risk or *NSLT health* reserve risk of the segment to calculate the *NSLT health premium and reserve risk* sub-module.
8. Regions for the calculation of the factor for geographical diversification.

	Region	Territories that the region consists of
1	Northern Europe	Denmark (except Greenland), Estonia, Finland, Guernsey, Iceland, Ireland, Isle of Man, Jersey, Latvia, Lithuania, Norway, Sweden, United Kingdom (except Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, Pitcairn Islands, Saint Helena, Turks and Caicos Islands)
2	Western Europe	Austria, Belgium, France (except French Guiana, French Polynesia, Guadeloupe, Martinique, Mayotte, New Caledonia, Réunion, Saint Barthélemy, Saint Martin, Saint Pierre and Miquelon, Wallis and Futuna), Germany, Liechtenstein, Luxembourg, Monaco, Netherlands (except Aruba, Bonaire, Curaçao, Saba, Sint Eustatius, Sint Maarten), Switzerland
3	Eastern Europe	Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russia,

		<u>Slovakia, Ukraine</u>
4	<u>Southern Europe</u>	<u>Albania, Andorra, Bosnia and Herzegovina, Croatia, Cyprus, the former Yugoslav Republic of Macedonia, Gibraltar, Greece, Italy, Malta, Montenegro, Portugal, San Marino, Serbia, Slovenia, Spain, Vatican City State</u>
5	<u>Central and Western Asia</u>	<u>Armenia, Azerbaijan, Bahrain, Georgia, Iraq, Israel, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Tajikistan, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan, Yemen</u>
6	<u>Eastern Asia</u>	<u>China, Japan, Mongolia, North Korea, South Korea, Taiwan</u>
7	<u>South and South-Eastern Asia</u>	<u>Afghanistan, Bangladesh, Bhutan, Brunei, Burma/Myanmar, Cambodia, India, Indonesia, Iran, Laos, Malaysia, Maldives, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, East Timor, Vietnam</u>
8	<u>Oceania</u>	<u>American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia, Nauru, New Caledonia, New Zealand, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Pitcairn Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, Wallis and Futuna</u>
9	<u>Northern Africa</u>	<u>Algeria, Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Egypt, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Saint Helena, Senegal, Sierra Leone, South Sudan, Sudan, Togo, Tunisia</u>
10	<u>Southern Africa</u>	<u>Angola, Botswana, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mayotte, Mozambique, Namibia, Congo, Réunion, Rwanda, São Tomé and Príncipe, Seychelles, Somalia, South Africa, Swaziland, Uganda, Tanzania, Zambia, Zimbabwe</u>
11	<u>Northern America excluding the United States of America</u>	<u>Bermuda, Canada, Greenland, Saint Pierre and Miquelon</u>
12	<u>Caribbean and Central America</u>	<u>Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Bonaire, British Virgin Islands, Cayman Islands, Costa Rica, Cuba, Curaçao, Dominica, Dominican Republic, El Salvador, Grenada, Guadeloupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Nicaragua, Panama, Puerto Rico, Saint Barthélemy, Saba, Saint Kitts and Nevis, Saint Lucia, Saint Martin, Saint Vincent and the Grenadines, Sint Eustatius, Sint Maarten, Trinidad and Tobago, Turks and Caicos Islands, US Virgin Islands</u>
13	<u>Eastern South America</u>	<u>Brazil, Falkland Islands, French Guiana, Guyana, Paraguay, Suriname, Uruguay</u>
14	<u>Northern, southern and western South</u>	<u>Argentina, Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela</u>

	<u>America</u>	
15	<u>North-east United States of America</u>	<u>Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont</u>
16	<u>South-east United States of America</u>	<u>Alabama, Arkansas, Florida, Georgia (US), Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia</u>
17	<u>Mid-west United States of America</u>	<u>Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Wisconsin</u>
18	<u>Western United States of America</u>	<u>Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington, Wyoming</u>

3A6 NON-LIFE LAPSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for the non-life lapse risk sub-module as equal to the loss in its basic own funds resulting from a combination of the following instantaneous events:
 - (1) the discontinuance of 40% of the insurance policies for which discontinuance would result in an increase in technical provisions without the risk margin; and
 - (2) where reinsurance contracts cover contracts of insurance or reinsurance contracts that will be written in the future, the decrease of 40% of the number of those future contracts of insurance or reinsurance contracts used in the calculation of technical provisions.
2. A firm must apply the events referred to in 3A6.1 uniformly to all relevant contracts of insurance and reinsurance contracts and, in respect of any such reinsurance contracts, the firm must apply the event referred to in 3A6.1(1) to the underlying contracts of insurance.
3. For the purposes of determining the loss in its basic own funds under the event referred to in 3A6.1(1), the firm must base the calculation on the type of discontinuance that most negatively affects its basic own funds on a per policy basis.

3A7 NON-LIFE CATASTROPHE RISK SUB-MODULE

1. The non-life catastrophe risk sub-module must consist of all of the following sub-modules:
 - (1) the natural catastrophe risk sub-module;
 - (2) the sub-module for catastrophe risk of non-proportional property reinsurance;
 - (3) the man-made catastrophe risk sub-module; and
 - (4) the sub-module for other non-life catastrophe risk.
2. A firm must calculate the capital requirement for the non-life catastrophe risk sub-module in accordance with the following formula:

$$SCR_{nlCAT} = \sqrt{(SCR_{natCAT} + SCR_{npproperty})^2 + SCR_{mmCAT}^2 + SCR_{CATother}^2}$$

where:

- (1) SCR_{natCAT} denotes the capital requirement for natural catastrophe risk;
- (2) $SCR_{npproperty}$ denotes the capital requirement for the catastrophe risk of non-proportional property *reinsurance*;
- (3) SCR_{mmCAT} denotes the capital requirement for man-made catastrophe risk; and
- (4) $SCR_{CATother}$ denotes the capital requirement for other *non-life catastrophe risk*.

3A8 NATURAL CATASTROPHE RISK SUB-MODULE

1. The natural catastrophe risk sub-module must consist of all of the following sub-modules:
 - (1) the windstorm risk sub-module;
 - (2) the earthquake risk sub-module;
 - (3) the flood risk sub-module;
 - (4) the hail risk sub-module; and
 - (5) the subsidence risk sub-module.
2. A firm must calculate the capital requirement for natural catastrophe risk in accordance with the following formula:

$$SCR_{natCAT} = \sqrt{\sum_i SCR_i^2}$$

where:

- (1) the sum includes all possible combinations of the sub-modules i set out in 3A8.1; and
- (2) SCR_i denotes the capital requirement for sub-module i .

3A9 WINDSTORM RISK SUB-MODULE

1. A firm must calculate the capital requirement for windstorm risk in accordance with the following formula:

$$SCR_{windstorm} = \sqrt{\left(\sum_{(r,s)} CorrWS_{(r,s)} \cdot SCR_{windstorm,r} \cdot SCR_{windstorm,s} \right) + SCR_{(windstorm,other)}^2}$$

where:

- (1) the sum includes all possible combinations (r, s) of the regions set out in Annex V;
 - (2) $CorrWS_{(r,s)}$ denotes the correlation coefficient for windstorm risk for region r and region s as set out in Annex V;
 - (3) $SCR_{(windstorm,r)}$ and $SCR_{(windstorm,s)}$ denote the capital requirements for windstorm risk in region r and s respectively; and
 - (4) $SCR_{(windstorm,other)}$ denotes the capital requirement for windstorm risk in regions other than those set out in 3A10.
2. For all regions set out in Annex V, a firm must calculate the capital requirement for windstorm risk in a particular region r as the higher of the following two capital requirements:
 - (1) the capital requirement for windstorm risk in region r according to scenario A as set out in 3A9.3; and

- (2) the capital requirement for windstorm risk in region r according to scenario B as set out in 3A9.4.
3. For all regions set out in Annex V, a *firm* must calculate the capital requirement for windstorm risk in a particular region r according to scenario A as equal to the loss in its *basic own funds* that would result from the following sequence of events:
- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 80% of the specified windstorm loss in region r ; and
- (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 40% of the specified windstorm loss in region r .
4. For all regions set out in Annex V, a *firm* must calculate the capital requirement for windstorm risk in a particular region r according to scenario B as equal to the loss in its *basic own funds* that would result from the following sequence of events:
- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 100% of the specified windstorm loss in region r ; and
- (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 20% of the specified windstorm loss in region r .
5. For all regions set out in Annex V, a *firm* must calculate the specified windstorm loss in a particular region r in accordance with the following formula:

$$L_{(windstorm,r)} = \sqrt{\sum_{(i,j)} Corr_{(windstorm,r,i,j)} \cdot WSI_{(windstorm,r,i)} \cdot WSI_{(windstorm,r,j)}}$$

where:

- (1) the sum includes all possible combinations of risk zones (i, j) of region r set out in Annex IX;
- (2) $Corr_{(windstorm,r,i,j)}$ denotes the correlation coefficient for windstorm risk in risk zones i and j of region r set out in Annex XXII; and
- (3) $WSI_{(windstorm,r,i)}$ and $WSI_{(windstorm,r,j)}$ denote the weighted sums insured for windstorm risk in risk zones i and j of region r set out in Annex IX.
6. For all regions set out in Annex V and all risk zones of those regions set out in Annex IX, a *firm* must calculate the weighted sum insured for windstorm risk in a particular windstorm zone i of a particular region r in accordance with the following formula:

$$WSI_{(windstorm,r,i)} = Q_{(windstorm,r)} \cdot W_{(windstorm,r,i)} \cdot SI_{(windstorm,r,i)}$$

where:

- (1) $W_{(windstorm,r,i)}$ denotes the risk weight for windstorm risk in risk zone i of region r set out in Annex X;
- (2) $SI_{(windstorm,r,i)}$ denotes the sum insured for windstorm risk in windstorm zone i of region r ; and
- (3) $Q_{(windstorm,r)}$ denotes the windstorm risk factor for region r as set out in Annex V.
7. Where the amount determined for a particular risk zone in accordance with 3A9.6 exceeds an amount (referred to for these purposes as ‘the lower amount’) equal to the sum of the potential

losses without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that the *firm* could suffer for windstorm risk in that risk zone, taking into account the terms and conditions of its specific *policies*, including any contractual payment limits, the *firm* may, as an alternative calculation, determine the weighted sum insured for windstorm risk in that risk zone as the lower amount.

8. For all regions set out in Annex V and all risk zones of those regions set out in Annex IX, a *firm* must calculate the sum insured for windstorm risk in a particular windstorm zone *i* of a particular region *r* in accordance with the following formula:

$$SI_{(windstorm,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)}$$

where:

- (1) $SI_{(property,r,i)}$ denotes the sum insured by the *firm* for *lines of business* 7 and 19 in relation to *contracts of insurance* that cover windstorm risk and where the risk is situated in risk zone *i* of region *r*; and
 - (2) $SI_{(onshore-property,r,i)}$ denotes the sum insured by the *firm* for *lines of business* 6 and 18 in relation to *contracts of insurance* that cover onshore property damage by windstorm and where the risk is situated in risk zone *i* of region *r*.
9. A *firm* must calculate the capital requirement for windstorm risk in regions other than those set out in 3A10 as equal to the loss in its *basic own funds* that would result from an instantaneous loss in relation to each *contract of insurance* that covers any of the following insurance or *reinsurance* obligations:
- (1) obligations of *lines of business* 7 or 19 that cover windstorm risk and where the risk is not situated in one of the regions set out in 3A10; and
 - (2) obligations of *lines of business* 6 or 18 in relation to onshore property damage by windstorm and where the risk is not situated in one of the regions set out in 3A10.
10. A *firm* must calculate the amount of the instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, referred to in 3A9.9 in accordance with the following formula:

$$L_{(windstorm,other)} = 1.75 \cdot (0.5 \cdot DIV_{windstorm} + 0.5) \cdot P_{windstorm}$$

where:

- (1) $DIV_{windstorm}$ is calculated in accordance with 3A5, but based on the *premiums* in respect of the obligations referred to in 3A9.9 and restricted to the regions 5 to 18 set out in 3A5.8; and
- (2) $P_{windstorm}$ is an estimate of the *premiums* to be earned by the *firm* for each *contract of insurance* that covers the obligations referred to in 3A9.9 during the following 12 months provided that, for this purpose *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

3A10 LIST OF REGIONS FOR WHICH NATURAL CATASTROPHE RISK IS NOT CALCULATED BASED ON PREMIUMS

1. The regions for which natural catastrophe risk is not calculated based on *premiums* are:
- (1) Member States of the European Union;
 - (2) Principality of Andorra;
 - (3) Republic of Iceland;

- (4) Principality of Lichtenstein;
- (5) Principality of Monaco;
- (6) Kingdom of Norway;
- (7) Republic of San Marino;
- (8) Swiss Confederation;
- (9) Vatican City State; and
- (10) The United Kingdom.

3A11 EARTHQUAKE RISK SUB-MODULE

1. A firm must calculate the capital requirement for earthquake risk in accordance with the following formula:

$$SCR_{earthquake} = \sqrt{(\sum_{r,s} CorrEQ_{(r,s)} \cdot SCR_{(earthquake,r)} \cdot SCR_{(earthquake,s)}) + SCR^2_{(earthquake,other)}}$$

where:

- (1) the sum includes all possible combinations (r, s) of the regions set out in Annex VI;
 - (2) CorrEQ_(r, s) denotes the correlation coefficient for earthquake risk for region r and region s as set out in Annex VI;
 - (3) SCR_(earthquake, r) and SCR_(earthquake, s) denote the capital requirements for earthquake risk in region r and s respectively; and
 - (4) SCR_(earthquake, other) denotes the capital requirement for earthquake risk in regions other than those set out in 3A10.
2. For all regions set out in Annex VI, a firm must calculate the capital requirement for earthquake risk in a particular region r as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_{(earthquake,r)} = \sqrt{\sum_{(i,j)} Corr_{(earthquake,r,i,j)} \cdot WSI_{(earthquake,r,i)} \cdot WSI_{(earthquake,r,j)}}$$

where:

- (1) the sum includes all possible combinations of risk zones (i, j) of region r set out in Annex IX;
 - (2) Corr_(earthquake, r, i, j) denotes the correlation coefficient for earthquake risk in risk zones i and j of region r set out in Annex XXIII; and
 - (3) WSI_(earthquake, r, i) and WSI_(earthquake, r, j) denote the weighted sums insured for earthquake risk in risk zones i and j of region r set out in Annex IX.
3. For all regions set out in Annex VI and all risk zones of those regions set out in Annex IX, a firm must calculate the weighted sum insured for earthquake risk in a particular earthquake zone i of a particular region r in accordance with the following formula:

$$WSI_{(earthquake,r,i)} = Q_{(earthquake,r)} \cdot W_{(earthquake,r,i)} \cdot SI_{(earthquake,r,i)}$$

where:

- (1) $W_{(earthquake, r, i)}$ denotes the risk weight for earthquake risk in risk zone i of region r set out in Annex X;
- (2) $SI_{(earthquake, r, i)}$ denotes the sum insured for earthquake risk in earthquake zone i of region r and
- (3) $Q_{(earthquake, r)}$ denotes the earthquake risk factor for region r as set out in Annex VI.
4. Where the amount determined for a particular risk zone in accordance with 3A11.3 exceeds an amount (referred to for these purposes as 'the lower amount') equal to the sum of the potential losses, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that the *firm* could suffer for earthquake risk in that risk zone, taking into account the terms and conditions of its specific *policies*, including any contractual payment limits, the *firm* may, as an alternative calculation, determine the weighted sum insured for earthquake risk in that risk zone as the lower amount.
5. For all regions set out in Annex VI and all risk zones of those regions set out in Annex IX, a *firm* must calculate the sum insured for earthquake risk in a particular earthquake zone i of a particular region r in accordance with the following formula:
- $$SI_{(earthquake, r, i)} = SI_{(property, r, i)} + SI_{(onshore-property, r, i)}$$
- where:
- (1) $SI_{(property, r, i)}$ denotes the sum insured of the *firm* for *lines of business* 7 and 19 in relation to *contracts of insurance* that cover earthquake risk and where the risk is situated in risk zone i of region r ; and
- (2) $SI_{(onshore-property, r, i)}$ denotes the sum insured of the *firm* for *lines of business* 6 and 18 in relation to *contracts of insurance* that cover onshore property damage by earthquake and where the risk is situated in risk zone i of region r .
6. A *firm* must calculate the capital requirement for earthquake risk in regions other than those set out in 3A10 as equal to the loss in its *basic own funds* that would result from an instantaneous loss in relation to each *contract of insurance* that covers one or both of the following insurance or *reinsurance* obligations:
- (1) obligations of *lines of business* 7 or 19 that cover earthquake risk, where the risk is not situated in one of the regions set out in 3A10; and
- (2) obligations of *lines of business* 6 or 18 in relation to onshore property damage by earthquake, where the risk is not situated in one of the regions set out in 3A10.
7. A *firm* must calculate the amount of the instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, referred to in 3A11.6, in accordance with the following formula:
- $$L_{(earthquake, other)} = 1.2 \cdot (0.5 \cdot DIV_{earthquake} + 0.5) \cdot P_{earthquake}$$
- where:
- (1) $DIV_{earthquake}$ is calculated in accordance with 3A5, but based on the *premiums* in respect of the obligations referred to in 3A11.6(1) and 3A11.6(2) and restricted to the regions 5 to 18 set out in 3A5; and
- (2) $P_{earthquake}$ is an estimate of the *premiums* to be earned by the *firm* for each *contract of insurance* that covers the obligations referred to in 3A11.6(1) and 3A11.6(2) during the following 12 months provided that, for this purpose *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

3A12 FLOOD RISK SUB-MODULE

1. A firm must calculate the capital requirement for flood risk in accordance with the following formula:

$$SCR_{flood} = \sqrt{\left(\sum_{(r,s)} CorrFL_{(r,s)} \cdot SCR_{(flood,r)} \cdot SCR_{(flood,s)}\right) + SCR^2_{(flood,other)}}$$

where:

- (1) the sum includes all possible combinations (r, s) of the regions set out in Annex VII;
 - (2) CorrFL_(r,s) denotes the correlation coefficient for flood risk for region r and region s as set out in Annex VII;
 - (3) SCR_(flood,r) and SCR_(flood,s) denote the capital requirements for flood risk in region r and s respectively; and
 - (4) SCR_(flood,other) denotes the capital requirement for flood risk in regions other than those set out in 3A10.
2. For all regions set out in Annex VII, the capital requirement for flood risk in a particular region r must be the higher of the following capital requirements:
- (1) the capital requirement for flood risk in region r according to scenario A as set out in 3A12.3; and
 - (2) the capital requirement for flood risk in region r according to scenario B as set out in 3A12.4.
3. For all regions set out in Annex VII, a firm must calculate the capital requirement for flood risk in a particular region r according to scenario A as equal to the loss in its *basic own funds* that would result from the following sequence of events:
- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 65% of the specified flood loss in region r; and
 - (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 45% of the specified flood loss in region r.
4. For all regions set out in Annex VII, a firm must calculate the capital requirement for flood risk in a particular region r according to scenario B as equal to the loss in its *basic own funds* that would result from the following sequence of events:
- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 100% of the specified flood loss in region r; and
 - (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 10% of the specified flood loss in region r.

5. For all regions set out in Annex VII, a firm must calculate the specified flood loss in a particular region r in accordance with the following formula:

$$L_{(flood,r)} = \sqrt{\sum_{(i,j)} Corr_{(flood,r,i,j)} \cdot WSI_{(flood,r,i)} \cdot WSI_{(flood,r,j)}}$$

where:

- (1) the sum includes all possible combinations of risk zones (i, j) of region r set out in Annex IX;
- (2) $Corr_{(flood, r, i, j)}$ denotes the correlation coefficient for flood risk in flood zones i and j of region r set out in Annex XXIV; and
- (3) $WSI_{(flood, r, i)}$ and $WSI_{(flood, r, j)}$ denote the weighted sums insured for flood risk in risk zones i and j of region r set out in Annex IX.
6. For all regions set out in Annex VII and all risk zones of those regions set out in Annex IX, a *firm* must calculate the weighted sum insured for flood risk in a particular flood zone i of a particular region r in accordance with the following formula:
- $$WSI_{(flood, r, i)} = Q_{(flood, r)} \cdot W_{(flood, r, i)} \cdot SI_{(flood, r, i)}$$
- where:
- (1) $W_{(flood, r, i)}$ denotes the risk weight for flood risk in risk zone i of region r set out in Annex X;
- (2) $SI_{(flood, r, i)}$ denotes the sum insured for flood risk in flood zone i of region r ; and
- (3) $Q_{(flood, r)}$ denotes the flood risk factor for region r as set out in Annex VII.
7. Where the amount determined for a particular risk zone in accordance with 3A12.6 exceeds an amount (referred to for these purposes as 'the lower amount') equal to the sum of the potential losses, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that the *firm* could suffer for flood risk in that risk zone, taking into account the terms and conditions of its specific *policies*, including any contractual payment limits, the *firm* may, as an alternative calculation, determine the weighted sum insured for flood risk in that risk zone as the lower amount.
8. For all regions set out in Annex VII and all risk zones of those regions set out in Annex IX, a *firm* must calculate the sum insured for flood risk for a particular risk zone i of a particular region r in accordance with the following formula:
- $$SI_{(flood, r, i)} = SI_{(property, r, i)} + SI_{(onshore-property, r, i)} + 1.5 \cdot SI_{(motor, r, i)}$$
- where:
- (1) $SI_{(property, r, i)}$ denotes the sum insured by the *firm* for *lines of business* 7 and 19 in relation to *contracts of insurance* that cover flood risk, where the risk is situated in risk zone i of region r ;
- (2) $SI_{(onshore-property, r, i)}$ denotes the sum insured by the *firm* for *lines of business* 6 and 18 in relation to *contracts of insurance* that cover onshore property damage by flood and where the risk is situated in risk zone i of region r ; and
- (3) $SI_{(motor, r, i)}$ denotes the sum insured by the *firm* for *lines of business* 5 and 17 in relation to *contracts of insurance* that cover flood risk, where the risk is situated in risk zone i of region r .
9. A *firm* must calculate the capital requirement for flood risk in regions other than those set out in 3A10, as equal to the loss in its *basic own funds* that would result from an instantaneous loss in relation to each *contract of insurance* that covers any of the following insurance or *reinsurance* obligations:
- (1) obligations of *lines of business* 7 or 19 that cover flood risk, where the risk is not situated in one of the regions set out in 3A10;
- (2) obligations of *lines of business* 6 or 18 in relation to onshore property damage by flood, where the risk is not situated in one of the regions set out in 3A10; and

(3) obligations of *lines of business* 5 or 17 that cover flood risk, where the risk is not situated in one of the regions set out in 3A10.

10. A firm must calculate the amount of the instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, referred to in 3A12.9, in accordance with the following formula:

$$L_{(flood, other)} = 1.1 \cdot (0.5 \cdot DIV_{flood} + 0.5) \cdot P_{flood}$$

where:

- (1) DIV_{flood} is calculated in accordance with 3A5, but based on the *premiums* in respect of the obligations referred to in 3A12.9(1), (2) and (3) and restricted to the regions 5 to 18 set out in 3A5.8; and
- (2) P_{flood} is an estimate of the *premiums* to be earned by the firm for each contract of *insurance* that covers the obligations referred to in 3A12.9(1), (2) and (3) during the following 12 months provided that, for this purpose, *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

3A13 HAIL RISK SUB-MODULE

1. A firm must calculate the capital requirement for hail risk in accordance with the following formula:

$$SCR_{hail} = \sqrt{\left(\sum_{(r,s)} CorrHL_{(r,s)} \cdot SCR_{(hail,r)} \cdot SCR_{(hail,s)} \right) + SCR^2_{(hail, other)}}$$

where:

- (1) the sum includes all possible combinations (r, s) of the regions set out in Annex VIII;
- (2) $CorrHL_{(r,s)}$ denotes the correlation coefficient for hail risk for region r and region s as set out in Annex VIII;
- (3) $SCR_{(hail,r)}$ and $SCR_{(hail,s)}$ denote the capital requirements for hail risk in regions r and s respectively; and
- (4) $SCR_{(hail, other)}$ denotes the capital requirement for hail risk in regions other than those set out in 3A10.
2. For all regions set out in Annex VIII, a firm must calculate the capital requirement for hail risk in a particular region r as the higher of the following capital requirements:
- (1) the capital requirement for hail risk in region r according to scenario A as set out in 3A13.3; and
- (2) the capital requirement for hail risk in region r according to scenario B as set out in 3A13.4.
3. For all regions set out in Annex VIII, a firm must calculate the capital requirement for hail risk in a particular region r according to scenario A as equal to the loss in its *basic own funds* that would result from the following sequence of events:
- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 70% of the specified hail loss in region r ; and
- (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 50% of the specified hail loss in region r .

4. For all regions set out in Annex VIII, a *firm* must calculate the capital requirement for hail risk in a particular region *r* according to scenario B as equal to the loss in its *basic own funds* that would result from the following sequence of events:

- (1) an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 100% of the specified hail loss in region *r*, and
- (2) a loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 20% of the specified hail loss in region *r*.

5. For all regions set out in Annex VIII, a *firm* must calculate the specified hail loss in a particular region *r* in accordance with the following formula:

$$L_{(hail,r)} = \sqrt{\sum_{(i,j)} Corr_{(hail,r,i,j)} \cdot WSI_{(hail,r,i)} \cdot WSI_{(hail,r,j)}}$$

where:

- (1) the sum includes all possible combinations of risk zones (i, j) of region *r* set out in Annex IX;
 - (2) $Corr_{(hail,r,i,j)}$ denotes the correlation coefficient for hail risk in risk zones *i* and *j* of region *r* set out in Annex XXV; and
 - (3) $WSI_{(hail,r,i)}$ and $WSI_{(hail,r,j)}$ denote the weighted sums insured for hail risk in risk zones *i* and *j* of region *r* set out in Annex IX.
6. For all regions set out in Annex VIII and all risk zones of those regions set out in Annex IX, a *firm* must calculate the weighted sum insured for hail risk in a particular hail zone *i* of a particular region *r* in accordance with the following formula:

$$WSI_{(hail,r,i)} = Q_{(hail,r)} \cdot W_{(hail,r,i)} \cdot SI_{(hail,r,i)}$$

where:

- (1) $W_{(hail,r,i)}$ denotes the risk weight for hail risk in risk zone *i* of region *r* set out in Annex X;
 - (2) $SI_{(hail,r,i)}$ denotes the sum insured for hail risk in hail zone *i* of region *r*, and
 - (3) $Q_{(hail,r)}$ denotes the hail risk factor for region *r* as set out in Annex VIII.
7. Where the amount determined for a particular risk zone in accordance with 3A13.6 exceeds an amount (referred to for these purposes as ‘the lower amount’) equal to the sum of the potential losses, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that the *firm* could suffer for hail risk in that risk zone taking into account the terms and conditions of its specific *policies*, including any contractual payment limits, the *firm* may, as an alternative calculation, determine the weighted sum insured for hail risk in that risk zone as the lower amount.
8. For all regions set out in Annex VIII and all hail zones, a *firm* must calculate the sum insured for hail risk in a particular hail zone *i* of a particular region *r* in accordance with the following formula:

$$SI_{(hail,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)} + 5 \cdot SI_{(motor,r,i)}$$

where:

- (1) $SI_{(property,r,i)}$ denotes the sum insured by the *firm* for *lines of business* 7 and 19 in relation to *contracts of insurance* that cover hail risk, where the risk is situated in risk zone *i* of region *r*.

- (2) $SI_{(onshore-property, r, i)}$ denotes the sum insured by the *firm* for *lines of business* 6 and 18 in relation to *contracts of insurance* that cover onshore property damage by hail, where the risk is situated in risk zone i of region r ; and
- (3) $SI_{(motor, r, i)}$ denotes the sum insured by the *firm* for insurance or *reinsurance* obligations for *lines of business* 5 and 17 in relation to *contracts of insurance* that cover hail risk, where the risk is situated in risk zone i of region r .
9. A *firm* must calculate the capital requirement for hail risk in regions other than those set out in 3A10, as equal to the loss in its *basic own funds* that would result from an instantaneous loss in relation to each *contract of insurance* that covers one or more of the following insurance or *reinsurance* obligations:
- (1) obligations of *lines of business* 7 or 19 that cover hail risk, where the risk is not situated in one of the regions set out in 3A10;
- (2) obligations of *lines of business* 6 or 18 in relation to onshore property damage by hail, where the risk is not situated in one of the regions set out in 3A10; and
- (3) obligations of *lines of business* 5 or 17 that cover hail risk, where the risk is not situated in one of the regions set out in 3A10.
10. A *firm* must calculate the amount of the instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, referred to in 3A13.9, in accordance with the following formula:

$$L_{(hail, other)} = 0.3 \cdot (0.5 \cdot DIV_{hail} + 0.5) \cdot P_{hail}$$

where:

- (1) DIV_{hail} is calculated in accordance with 3A5, but based on the *premiums* in respect of the obligations referred to in 3A13.9(1), (2) and (3) and restricted to the regions 5 to 18 set out in 3A5; and
- (2) P_{hail} is an estimate of the *premiums* to be earned by the *firm* for each *contract of insurance* that covers the obligations referred to in 3A13.9(1), (2) and (3) during the following 12 months provided that, for this purpose *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

3A14 SUBSIDENCE RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for subsidence risk as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_{(subsidence)} = \sqrt{\sum_{(i,j)} Corr_{(subsidence,i,j)} \cdot WSI_{(subsidence,i)} \cdot WSI_{(subsidence,j)}}$$

where:

- (1) the sum includes all possible combinations of risk zones (i, j) of France set out in Annex IX;
- (2) $Corr_{(subsidence,i,j)}$ denotes the correlation coefficient for subsidence risk in risk zones i and j set out in Annex XXVI; and
- (3) $WSI_{(subsidence,i)}$ and $WSI_{(subsidence,j)}$ denote the weighted sums insured for subsidence risk in risk zones i and j of France set out in Annex IX.

2. For all subsidence zones, a *firm* must calculate the weighted sum insured for subsidence risk in a particular risk zone *i* of France set out in Annex IX in accordance with the following formula:

$$WSI_{(subsidence,i)} = 0.0005 \cdot W_{(subsidence,i)} \cdot SI_{(subsidence,i)}$$

where:

- (1) $W_{(subsidence,i)}$ denotes the risk weight for subsidence risk in risk zone *i* set out in Annex X; and
- (2) $SI_{(subsidence,i)}$ denotes the sum insured of the *firm* for *lines of business* 7 and 19 in relation to *contracts of insurance* that cover subsidence risk of residential buildings in subsidence zone *i*.
3. Where the amount determined for a particular risk zone in accordance with 3A14.2 exceeds an amount (referred to for these purposes as 'the lower amount') equal to the sum of the potential losses, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that the *firm* could suffer for subsidence risk in that risk zone, taking into account the terms and conditions of its specific *policies*, including any contractual payment limits, the *firm* may, as an alternative calculation, determine the weighted sum insured for subsidence risk in that risk zone as the lower amount.

3A15 INTERPRETATION OF CATASTROPHE SCENARIOS

1. For the purposes of 3A9.3 and 3A9.4, 3A12.3 and 3A12.4 and 3A13.3 and 3A13.4, a *firm* must base the calculation of the capital requirement on the following assumptions:
- (1) the two consecutive events referred to in those rules are independent; and
- (2) the *firm* does not enter into new insurance *risk-mitigation techniques* between the occurrence of the two events.
2. Notwithstanding 3.3A(1)(d), where current *reinsurance contracts* allow for reinstatements:
- (1) a *firm* must take into account future management actions in relation to the reinstatements between the occurrence of the first and the second event; and
- (2) the assumptions about future management actions must be realistic, objective and verifiable.

3A16 SUB-MODULE FOR CATASTROPHE RISK OF NON-PROPORTIONAL PROPERTY REINSURANCE

1. A *firm* must calculate the capital requirement for catastrophe risk of non-proportional property *reinsurance* as equal to the loss in its *basic own funds* that would result from an instantaneous loss in relation to each *reinsurance contract* that covers *reinsurance obligations of line of business* 28 other than non-proportional *reinsurance obligations* relating to insurance obligations included in *lines of business* 9 and 21.
2. A *firm* must calculate the amount of the instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, referred to in 3A16.1 in accordance with the following formula:

$$L_{npproperty} = 2.5 \cdot (0.5 \cdot DIV_{npproperty} + 0.5) \cdot P_{npproperty}$$

where:

- (1) $DIV_{npproperty}$ is calculated in accordance with 3A5, but based on the *premiums* earned by the *firm* in *line of business* 28, other than non-proportional *reinsurance obligations* relating to insurance obligations included in *lines of business* 9 and 21;

- (2) $P_{npproperty}$ is an estimate of the *premiums* to be earned by the *firm* during the following 12 months for each *reinsurance contract* that covers the *reinsurance obligations* of *line of business* 28 other than non-proportional *reinsurance obligations* relating to insurance obligations included in *lines of business* 9 and 21 provided that for this purpose *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

3A17 MAN-MADE CATASTROPHE RISK SUB-MODULE

1. The man-made catastrophe risk sub-module must consist of all of the following sub-modules:
 - (1) the motor vehicle liability risk sub-module;
 - (2) the marine risk sub-module;
 - (3) the aviation risk sub-module;
 - (4) the fire risk sub-module;
 - (5) the liability risk sub-module; and
 - (6) the credit and suretyship risk sub-module.
2. A *firm* must calculate the capital requirement for the man-made catastrophe risk in accordance with the following formula:

$$SCR_{mmCAT} = \sqrt{\sum_i SCR_i^2}$$

where:

- (1) the sum includes all sub-modules set out in 3A17.1; and
- (2) SCR_i denotes the capital requirements for sub-module i .

3A18 MOTOR VEHICLE LIABILITY RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for motor vehicle liability risk as equal to the loss in its *basic own funds* that would result from an instantaneous loss that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula in GBP:

$$L_{motor} = \max \left(5,300,000; 44,0000 \cdot \sqrt{N_a + 0.05 \cdot N_b + 0.95 \cdot \min(N_b; 20,000)} \right)$$

where:

- (1) N_a is the number of vehicles insured by the *firm* in *lines of business* 4 and 16 with a deemed *policy* limit above GBP 21,200,000; and
 - (2) N_b is the number of vehicles insured by the *firm* in *lines of business* 4 and 16 with a deemed *policy* limit below or equal to GBP 21,200,000.
2. The number of motor vehicles covered by the proportional *reinsurance obligations* of the *firm* must be weighted by the relative share of the *firm's* obligations in respect of the sum insured of the motor vehicles.
3. The deemed *policy* limit referred to in 3A18.1 must be:
 - (1) the overall limit of the motor vehicle liability insurance *policy* or, where no such overall limit is specified in the terms and conditions of the *policy*, the sum of the limits for damage to property and for personal injury; or

- (2) where the *policy* limit is specified as a maximum per victim, based on the assumption of ten victims.

3A19 MARINE RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for marine risk in accordance with the following formula:

$$SCR_{marine} = \sqrt{SCR_{vessel}^2 + SCR_{platform}^2}$$

where:

- (1) SCR_{vessel} is the capital requirement for the risk of a vessel collision; and
- (2) $SCR_{platform}$ is the capital requirement for the risk of a platform explosion.
2. A *firm* must calculate the capital requirement for the risk of a vessel collision as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount calculated in accordance with the following formula:

$$L_{vessel} = \max_v(SI_{(hull,v)} + SI_{(liab,v)} + SI_{(pollution,v)})$$

where:

- (1) the maximum relates to all sea, lake, river, and canal vessels insured by the *firm* in respect of vessel collision in *lines of business* 6, 18 and 27 where the insured value of the vessel is at least GBP 220,000;
- (2) $SI_{(hull,v)}$ is the sum insured by the *firm*, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, for marine hull insurance and *reinsurance* in relation to vessel *v*;
- (3) $SI_{(liab,v)}$ is the sum insured by the *firm*, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, for marine liability insurance and *reinsurance* in relation to vessel *v*; and
- (4) $SI_{(pollution,v)}$ is the sum insured by the *firm*, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, for oil pollution insurance and *reinsurance* in relation to vessel *v*.
3. For the purposes of determining $SI_{(hull,v)}$, $SI_{(liab,v)}$, and $SI_{(pollution,v)}$, a *firm* must only take into account *reinsurance contracts* and *special purpose vehicles* that would pay out in the event of insurance claims related to vessel *v* and must not take into account *reinsurance contracts* and *special purpose vehicles* where payout is dependent on insurance claims not related to vessel *v*.
4. Where the deduction of amounts recoverable would lead to a capital requirement for the risk of a vessel collision that insufficiently captures the risk of a vessel collision that the *firm* is exposed to, the *firm* must calculate $SI_{(hull,v)}$, $SI_{(liab,v)}$, or $SI_{(pollution,v)}$ without deduction of amounts recoverable.
5. A *firm* must calculate the capital requirement for the risk of a platform explosion as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount calculated in accordance with the following formula:

$$L_{platform} = \max_p(SI_p)$$

where:

- (1) the maximum relates to all oil and gas offshore platforms insured by the *firm* in respect of platform explosion in *lines of business* 6, 18, and 27; and
- (2) SI_p is the accumulated sum insured by the *firm*, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, for the following insurance and *reinsurance* obligations in relation to platform *p*:
 - (a) obligations to compensate for property damage;
 - (b) obligations to compensate for the expenses for the removal of wreckage;
 - (c) obligations to compensate for loss of production income;
 - (d) obligations to compensate for the expenses for capping of the well or making the well secure; and
 - (e) liability insurance and *reinsurance* obligations.
6. For the purposes of determining SI_p , a *firm* must only take into account *reinsurance contracts* and *special purpose vehicles* that would pay out in the event of insurance claims related to platform *p* and must not take into account *reinsurance contracts* and *special purpose vehicles* where payout is dependent on insurance claims that are not related to platform *p*.
7. Where the deduction of amounts recoverable would lead to a capital requirement for the risk of a platform explosion that insufficiently captures the risk of a platform explosion that the *firm* is exposed to, the *firm* must calculate SI_p without the deduction of amounts recoverable.

3A20 AVIATION RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for aviation risk as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount calculated in accordance with the following formula:

$$L_{aviation} = \max_a(SI_a)$$
where:
 - (1) the maximum relates to all aircrafts insured by the *firm* in *lines of business* 6, 18, and 27; and
 - (2) SI_a is the sum insured by the *firm*, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, for aviation hull insurance and *reinsurance* and aviation liability insurance and *reinsurance* in relation to aircraft *a*.
2. For the purposes of 3A20, a *firm* must only take into account *reinsurance contracts* and *special purpose vehicles* that would pay out in the event of insurance claims related to aircraft *a* and must not take into account *reinsurance contracts* and *special purpose vehicles* where payout is dependent on insurance claims that are not related to aircraft *a*.
3. Where the deduction of amounts recoverable would lead to a capital requirement for aviation risk that insufficiently captures the aviation risk that the *firm* is exposed to, the *firm* must, calculate SI_a without the deduction of amounts recoverable.

3A21 FIRE RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for fire risk as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount equal to the sum insured by the *firm* with respect to the largest fire risk concentration.

2. The largest fire risk concentration of a *firm* is the set of buildings with the highest sum insured, after deduction of the amounts that the *firm* can recover from *reinsurance contracts* and *special purpose vehicles*, that meets all of the following requirements:
 - (1) the *firm* has insurance or *reinsurance* obligations in *lines of business* 7 and 19, in relation to each building that cover damage due to fire or explosion, including as a result of terrorist attacks; and
 - (2) all buildings are partly or fully located within a radius of 200 metres.
3. In determining the sum insured for a set of buildings, a *firm* must only take into account *reinsurance contracts* and *special purpose vehicles* that would pay out in the event of insurance claims related to that set of buildings and must not take into account *reinsurance contracts* and *special purpose vehicles* where payout is dependent on insurance claims that are not related to that set of buildings.
4. Where the deduction of amounts recoverable would lead to a capital requirement for fire risk that insufficiently captures the fire risk that the *firm* is exposed to, the *firm* must calculate the sum insured for a set of buildings without the deduction of amounts recoverable.
5. For the purposes of 3A21.2 to 3A21.4, the set of buildings may be covered by one or several *contracts of insurance* or *reinsurance contracts*.

3A22 LIABILITY RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for liability risk in accordance with the following formula:

$$SCR_{liability} = \sqrt{\sum_{(i,j)} Corr_{(liability,i,j)} \cdot SCR_{(liability,i)} \cdot SCR_{(liability,j)}}$$

where:

- (1) the sum includes all possible combinations of liability risk groups (*i, j*) as set out in Annex XI;
 - (2) $Corr_{(liability,i,j)}$ denotes the correlation coefficient for liability risk of liability risk groups *i* and *j* as set out in Annex XI; and
 - (3) $SCR_{(liability,i)}$ denotes the capital requirement for liability risk of liability risk group *i*.
2. For all liability risk groups set out in Annex XI, a *firm* must calculate the capital requirement for liability risk of a particular liability risk group *i* as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_{(liability,i)} = f_{(liability,i)} \cdot P_{(liability,i)}$$

where:

- (1) $f_{(liability,i)}$ denotes the risk factor for liability risk group *i* as set out in Annex XI; and
 - (2) $P_{(liability,i)}$ denotes the *premiums* earned by the *firm* during the following 12 months in relation to insurance and *reinsurance* obligations in liability risk group *i*; for this purpose *premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.
3. The calculation of the loss in *basic own funds* referred to in 3A22.2 must be based on the following assumptions:

- (1) the loss of liability risk group i is caused by ni claims and the losses caused by these claims are representative for the business of the *firm* in liability risk group i and sum up to the loss of liability risk group i ; and
- (2) the number of claims ni is equal to the lowest integer that exceeds the following amount:

$$\frac{f_{(liability,i)} \cdot P_{(liability,i)}}{1.15 \cdot Lim_{(i,1)}}$$

where:

- (a) $f_{(liability,i)}$ and $P_{(liability,i)}$ are defined as in 3A22.2; and
- (b) $Lim_{(i,1)}$ denotes the highest liability limit of indemnity provided by the *firm* in liability risk group i ;
- (3) where the *firm* provides unlimited cover in liability risk group i , the number of claims ni is equal to one.

3A23 CREDIT AND SURETYSHIP RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for credit and suretyship risk in accordance with the following formula:

$$SCR_{credit} = \sqrt{SCR_{default}^2 + SCR_{recession}^2}$$

where:

- (1) $SCR_{default}$ is the capital requirement for the risk of a large credit default; and
- (2) $SCR_{recession}$ is the capital requirement for recession risk.
2. A *firm* must calculate the capital requirement for the risk of a large credit default as equal to the loss in its *basic own funds* that would result from an instantaneous default of the two largest exposures relating to obligations included in *lines of business* 9 and 21 of the *firm* and must base this calculation on the assumption that the loss-given-default, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, of each exposure is 10% of the sum insured in relation to the exposure.
3. The two largest credit insurance exposures referred to in 3A23.2 must be determined based on a comparison of the net loss-given-default of the credit insurance exposures, being the loss-given-default after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*.
4. A *firm* must calculate the capital requirement for recession risk as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is equal to 100% of the *premiums* earned by the *firm* during the following 12 months in *lines of business* 9 and 21.

3A24 SUB-MODULE FOR OTHER NON-LIFE CATASTROPHE RISK

1. A *firm* must calculate the capital requirement for other *non-life catastrophe risk* as equal to the loss in its *basic own funds* that would result from an instantaneous loss, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, that is equal to the following amount:

$$L_{other} = \sqrt{(c_1 \cdot P_1 + c_2 \cdot P_2)^2 + (c_3 \cdot P_3)^2 + (c_4 \cdot P_4)^2 + (c_5 \cdot P_5)^2}$$

where:

- (1) P_1 , P_2 , P_3 , P_4 , and P_5 denote estimates of the gross *premium*, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, expected to be earned by the *firm* during the following 12 months in relation to the groups of insurance and *reinsurance* obligations 1 to 5 set out in Annex XII; and
- (2) c_1 , c_2 , c_3 , c_4 , and c_5 denote the risk factors for the groups of insurance and *reinsurance* obligations 1 to 5 set out in Annex XII.

3B LIFE UNDERWRITING RISK MODULE

3B1 LIFE MORTALITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for *mortality risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 15% in the mortality rates used for the calculation of *technical provisions*.
2. A firm must only apply the increase in mortality rates referred to in 3B1.1 to those insurance *policies* for which an increase in mortality rates leads to an increase in *technical provisions* without the *risk margin* and in identifying such *policies*, the firm may make the following assumptions:
 - (1) multiple insurance *policies* in respect of the same insured *person* may be treated as if they were one insurance *policy*; and
 - (2) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Technical Provisions – Further Requirements 20, the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result that is not materially different.
3. With regard to *reinsurance* obligations, the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates must only apply to the underlying insurance *policies* and must be carried out in accordance with 3B1.2.

3B2 LIFE LONGEVITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for *longevity risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent decrease of 20% in the mortality rates used for the calculation of *technical provisions*.
2. A firm must only apply the decrease in mortality rates referred to in 3B2.1 to those insurance *policies* for which a decrease in mortality rates leads to an increase in *technical provisions* without the *risk margin* and in identifying such *policies*, the firm may make the following assumptions:
 - (1) multiple insurance *policies* in respect of the same insured *person* may be treated as if they were one insurance *policy*; and
 - (2) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Technical Provisions – Further Requirements 20, the identification of the *policies* for which *technical provisions* increase under a decrease in mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result that is not materially different.

3. With regard to *reinsurance* obligations, the identification of the *policies* for which *technical provisions* increase under a decrease in mortality rates must only apply to the underlying insurance *policies* and must be carried out in accordance with 3B2.2.

3B3 LIFE DISABILITY-MORBIDITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for *disability-morbidity risk* as equal to the loss in its *basic own funds* that would result from the combination of the following instantaneous permanent changes:
 - (1) an increase of 35% in the disability and morbidity rates that are used in the calculation of *technical provisions* to reflect the disability and morbidity experience in the following 12 months;
 - (2) an increase of 25% in the disability and morbidity rates that are used in the calculation of *technical provisions* to reflect the disability and morbidity experience for all *months* after the following 12 months; and
 - (3) a decrease of 20% in the disability and morbidity recovery rates used in the calculation of *technical provisions* in respect of the following 12 months and for all years thereafter.

3B4 LIFE-EXPENSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for life *expense risk* as equal to the loss in its *basic own funds* that would result from the combination of the following instantaneous permanent changes:
 - (1) an increase of 10% in the amount of expenses taken into account in the calculation of *technical provisions*; and
 - (2) an increase of one percentage point to the expense inflation rate (expressed as a percentage) used in the calculation of *technical provisions*.
2. With regard to *reinsurance* obligations, a firm must apply those changes to its own expenses and, where relevant, to the expenses of the ceding undertakings.

3B5 LIFE REVISION RISK SUB-MODULE

1. A firm must calculate the capital requirement for *life revision risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 3% in the amount of annuity benefits only on annuity insurance and *reinsurance* obligations where the benefits payable under the underlying insurance *policies* could increase as a result of changes in the legal environment or in the state of health of the *person* insured.

3B6 LIFE LAPSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for *lapse risk* as equal to the highest of the following capital requirements:
 - (1) the capital requirement for the risk of a permanent increase in lapse rates;
 - (2) the capital requirement for the risk of a permanent decrease in lapse rates; and
 - (3) the capital requirement for mass *lapse risk*.
2. A firm must calculate the capital requirement for the risk of a permanent increase in lapse rates as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 50% in the option exercise rates of the relevant options (as set out in 3B6.4 and 3B6.5), provided that the increased option exercise rates must not exceed 100% and the

increase in option exercise rates must only apply to relevant options for which the exercise of the option would result in an increase in *technical provisions* without the *risk margin*.

3. A firm must calculate the capital requirement for the risk of a permanent decrease in lapse rates as equal to the loss in its *basic own funds* that would result from an instantaneous permanent decrease of 50% in the option exercise rates of the relevant options (as set out in 3B6.4 and 3B6.5), provided that the decrease in option exercise rates must not exceed 20 percentage points and the decrease in option exercise rates must only apply to relevant options for which the exercise of the option would result in a decrease in *technical provisions* without the *risk margin*.

4. The relevant options for the purposes of 3B6.2 and 3B6.3 are the following:

- (1) all legal or contractual *policyholder* rights to fully or partly terminate, *surrender*, decrease, restrict or suspend insurance cover or permit the insurance *policy* to lapse; and
- (2) all legal or contractual *policyholder* rights to fully or partially establish, renew, increase, extend or resume the insurance or *reinsurance* cover.

For the purposes of 3B6.4(2) the change in the option exercise rate referred to in 3B6.2 and 3B6.3 must be applied to the rate reflecting that the relevant option is not exercised.

5. In relation to *reinsurance contracts* the relevant options for the purposes of 3B6.2 and 3B6.3 are the following:

- (1) the rights referred to in 3B6.4 of the *policyholders* of the *reinsurance contracts*;
- (2) the rights referred to in 3B6.4 of the *policyholders* of the *contracts of insurance* underlying the *reinsurance contracts*; and
- (3) where the *reinsurance contract* covers *contracts of insurance* or *reinsurance contracts* that will be written in the future, the right of the potential *policyholders* not to conclude those *contracts of insurance* or *reinsurance contracts*.

6. A firm must calculate the capital requirement for mass *lapse risk* as equal to the loss in its *basic own funds* that would result from a combination of the following instantaneous events:

- (1) the *discontinuance* of 70% of the insurance *policies* falling within the scope of operations referred to with *Regulated Activities Order* Schedule 1, Part II, class VII and *Regulated Activities Order* Schedule 1, Part II, class III for which *discontinuance* would result in an increase in *technical provisions* without the *risk margin* and where one of the following requirements are met:
 - (a) the *policyholder* is not a natural *person* and *discontinuance* of the *policy* is not subject to approval by the beneficiaries of the pension fund; or
 - (b) the *policyholder* is a natural *person* acting for the benefit of the *beneficiaries* of the *policy*, except where there is a family relationship between that natural *person* and the *beneficiaries*, or where the *policy* is effected for private estate planning or inheritance purposes and the number of *beneficiaries* under the *policy* does not exceed 20;
- (2) the *discontinuance* of 40% of the insurance *policies* other than those falling within 3B6.6(1) for which *discontinuance* would result in an increase in *technical provisions* without the *risk margin*; and
- (3) where *reinsurance contracts* cover *contracts of insurance* or *reinsurance contracts* that will be written in the future, the decrease of 40% of the number of those future *contracts of insurance* or *reinsurance contracts* used in the calculation of *technical provisions*.

7. A firm must apply the events referred to in 3B6.6 uniformly to all relevant *contracts of insurance* and *reinsurance contracts* and, in respect of any such *reinsurance contracts*, the firm must apply the event referred to in 3B6.6(1) to the underlying *contracts of insurance*.
8. For the purposes of determining the loss in its *basic own funds* under the events referred to in 3B6.6(1) and (2) the firm must base the calculation on the type of *discontinuance* that most negatively affects its *basic own funds* on a per *policy* basis.
9. Where the highest of the capital requirements referred to in 3B6.1(1), (2) and (3) and the highest of the corresponding capital requirements calculated in accordance with 6.3(2) are not based on the same scenario, the capital requirement for *lapse risk* must be the capital requirement referred to in 3B6.1(1), (2) and (3) for which the underlying scenario results in the highest corresponding capital requirement calculated in accordance with 6.3(2).

3B7 LIFE-CATASTROPHE RISK SUB-MODULE

1. A firm must calculate the capital requirement for *life-catastrophe risk* as equal to the loss in its *basic own funds* that would result from an instantaneous increase of 0.15 percentage points in the mortality rates (expressed as percentages) that are used in the calculation of *technical provisions* to reflect the mortality experience in the following 12 months.
2. A firm must only apply the increase in mortality rates referred to in 3B7.1 to those insurance *policies* for which an increase in mortality rates that are used to reflect the mortality experience in the following 12 months leads to an increase in *technical provisions* without the *risk margin* and in identifying such *policies*, the firm may make the following assumptions:
 - (1) multiple insurance *policies* in respect of the same insured *person* may be treated as if they were one insurance *policy*; and
 - (2) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Technical Provisions – Further Requirements 20 the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result that is not materially different.
3. With regard to *reinsurance policies*, the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates must only apply to the underlying insurance *policies* and must be carried out in accordance with 3B7.2.

3C HEALTH UNDERWRITING RISK MODULE

3C1 NSLT HEALTH UNDERWRITING RISK SUB-MODULE

1. The *NSLT health underwriting risk* sub-module must consist of the following sub-modules:
 - (1) the *NSLT health premium and reserve risk* sub-module; and
 - (2) the *NSLT health lapse risk* sub-module.
2. A firm must calculate the capital requirement for *NSLT health underwriting risk* in accordance with the following formula:

$$SCR_{NSLT} = \sqrt{SCR_{(NSLT,pr)}^2 + SCR_{(NSLT,lapse)}^2}$$

where:

(1) $SCR_{(NSLTh, pr)}$ denotes the capital requirement for *NSLT health premium and reserve risk*; and

(2) $SCR_{(NSLTh, lapse)}$ denotes the capital requirement for *NSLT health lapse risk*.

3C2 NSLT HEALTH PREMIUM AND RESERVE RISK SUB-MODULE

1. A firm must calculate the capital requirement for *NSLT health premium and reserve risk* in accordance with the following formula:

$$SCR_{(NSLT, pr)} = 3 \cdot \sigma_{NSLTh} \cdot V_{NSLTh}$$

where:

(1) σ_{NSLTh} denotes the standard deviation for *NSLT health premium and reserve risk* determined in accordance with 3C5; and

(2) V_{NSLTh} denotes the volume measure for *NSLT health premium and reserve risk* determined in accordance with 3C3.

3C3 VOLUME MEASURE FOR NSLT HEALTH PREMIUM AND RESERVE RISK

1. A firm must calculate the volume measure for *NSLT health premium and reserve risk* as equal to the sum of the volume measures for *premium* and *reserve risk* of the segments set out in 3C4.

2. For all segments set out in 3C4 a firm must calculate the volume measure of a particular segment s in accordance with the following formula:

$$V_s = (V_{(prem, s)} + V_{(res, s)}) \cdot (0.75 + 0.25 \cdot DIV_s)$$

where:

(1) $V_{(prem, s)}$ denotes the volume measure for *premium risk* of segment s ;

(2) $V_{(res, s)}$ denotes the volume measure for *reserve risk* of segment s ; and

(3) DIV_s denotes the factor for geographical diversification of segment s .

3. For all segments set out in 3C4 a firm must calculate the volume measure for *premium risk* of a particular segment s in accordance with the following formula:

$$V_{(prem, s)} = \max(P_s; P_{(last, s)}) + FP_{(existing, s)} + FP_{(future, s)}$$

where:

(1) P_s denotes an estimate of the *premiums* to be earned by the firm for the segment s during the following 12 months;

(2) $P_{(last, s)}$ denotes the *premiums* earned by the firm for the segment s during the last 12 months;

(3) $FP_{(existing, s)}$ denotes the expected present value of *premiums* to be earned by the firm for the segment s after the following 12 months for existing contracts of insurance; and

(4) $FP_{(future, s)}$ denotes the following amount with respect to contracts of insurance where the initial recognition date falls in the following 12 months:

(a) for all such contracts of insurance with an initial term of one year or less, the expected present value of *premiums* to be earned by the firm for the segment s , but excluding the *premiums* to be earned during the 12 months after the initial recognition date; and

- (b) for all such contracts of insurance with an initial term of more than one year, the amount equal to 30% of the expected present value of premiums to be earned by the firm for the segment s after the following 12 months.
4. For all segments set out in 3C4, a firm may, as an alternative to the calculation set out in 3C3.3, choose to calculate the volume measure for premium risk of a particular segment s in accordance with the following formula:

$$V_{(prem,s)} = P_s + FP_{(existing,s)} + FP_{(future,s)}$$
provided that all of the following requirements are met:
- (1) the governing body of the firm has decided that its earned premiums for the segment s during the following 12 months will not exceed P_s ;
 - (2) the firm has established effective control mechanisms to ensure that the limits on earned premiums referred to in (1) will be met; and
 - (3) the firm has informed the PRA in writing about the decision referred to in (1) and the reasons for it.
5. For the purposes of 3C3.4, the terms P_s , $FP_{(existing,s)}$ and $FP_{(future,s)}$ must be determined in accordance with 3C3.3(a), (c) and (d).
6. For the purposes of the calculations set out in 3C3.3 and 3C3.4, premiums must be net, after deduction of premiums for reinsurance contracts, except for premiums for the following types of reinsurance contracts which must not be deducted:
- (1) premiums in relation to non-insurance events or settled insurance claims that are not accounted for in the cash-flows referred to in Technical Provisions – Further Requirements 23.3; and
 - (2) premiums for reinsurance contracts that do not comply with 3G2, 3G3, 3G5 and 3G7.
7. For all segments set out in 3C4, a firm must calculate the volume measure for reserve risk of a particular segment as equal to the best estimate for the provision for claims outstanding for the segment, after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, provided that:
- (1) the reinsurance contracts or special purpose vehicles comply with 3G2, 3G3, 3G5 and 3G7; and
 - (2) the volume measure must not be a negative amount.
8. For all segments set out in 3C4, the default factor for geographical diversification must be either equal to 1 or calculated in accordance with 3A5.

3C4 SEGMENTATION OF NSLT HEALTH INSURANCE OBLIGATIONS AND NSLT HEALTH REINSURANCE OBLIGATIONS AND STANDARD DEVIATIONS FOR THE NSLT HEALTH PREMIUM AND RESERVE RISK SUB-MODULE

	<u>Segment</u>	<u>Lines of business that the segment consists of</u>	<u>Standard deviation for gross premium risk of the segment</u>	<u>Standard deviation for reserve risk of the segment</u>
1	<u>Medical expense insurance and proportional reinsurance</u>	<u>1 and 13</u>	<u>5%</u>	<u>5.7%</u>

<u>2</u>	<u>Income protection insurance and proportional reinsurance</u>	<u>2 and 14</u>	<u>8.5%</u>	<u>14%</u>
<u>3</u>	<u>Workers' compensation insurance and proportional reinsurance</u>	<u>3 and 15</u>	<u>9.6%</u>	<u>11%</u>
<u>4</u>	<u>Non-proportional health reinsurance</u>	<u>25</u>	<u>17%</u>	<u>17%</u>

3C5 STANDARD DEVIATION FOR NSLT HEALTH PREMIUM AND RESERVE RISK

1. A firm must calculate the standard deviation for NSLT health premium and reserve risk in accordance with the following formula:

$$\sigma_{NSLTh} = \frac{1}{V_{NSLTh}} \cdot \sqrt{\sum_{s,t} CorrHS_{(s,t)} \cdot \sigma_s \cdot V_s \cdot \sigma_t \cdot V_t}$$

where:

- (1) V_{NSLTh} denotes the volume measure for NSLT health premium and reserve risk;
 - (2) the sum covers all possible combinations (s, t) of the segments set out in 3C4;
 - (3) $CorrHS_{(s,t)}$ denotes the correlation coefficient for NSLT health premium and reserve risk for segment s and segment t set out in 3C6;
 - (4) σ_s and σ_t denote standard deviations for NSLT health premium and reserve risk of segments s and t respectively; and
 - (5) V_s and V_t denote volume measures for premium and reserve risk of segments s and t, referred to in 3C4, respectively.
2. For all segments set out in 3C4, a firm must calculate the standard deviation for NSLT health premium and reserve risk of a particular segment s in accordance with the following formula:
- $$\sigma_s = \frac{\sqrt{\sigma_{(prem,s)}^2 \cdot V_{(prem,s)}^2 + \sigma_{(prem,s)} \cdot V_{(prem,s)} \cdot \sigma_{(res,s)} \cdot V_{(res,s)} + \sigma_{(res,s)}^2 \cdot V_{(res,s)}^2}}{V_{(prem,s)} + V_{(res,s)}}$$
- where:
- (1) $\sigma_{(prem,s)}$ denotes the standard deviation for NSLT health premium risk of segment s determined in accordance with 3C5.3;
 - (2) $\sigma_{(res,s)}$ denotes the standard deviation for NSLT health reserve risk of segment s as set out in 3C4; and
 - (3) $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s referred to in 3C3;
 - (4) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s referred to in 3C3.
3. For all segments set out in 3C4, a firm must calculate the standard deviation for NSLT health premium risk of a particular segment as equal to the product of the standard deviation for NSLT health gross premium risk of the segment set out in 3C4 and the adjustment factor for non-proportional reinsurance, which, for all segments set out in 3C4 must be equal to 100%.

3C6 CORRELATION MATRIX FOR NSLT HEALTH PREMIUM AND RESERVE RISK

1. The correlation coefficient $CorrHS_{(s, t)}$ referred to in 3C5.1 must be equal to the item set out in row s and in column t of the following correlation matrix. The headings of the rows and columns denote the numbers of the segments set out 3C4:

<u>t, s</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
<u>1</u>	<u>1</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
<u>2</u>	<u>0.5</u>	<u>1</u>	<u>0.5</u>	<u>0.5</u>
<u>3</u>	<u>0.5</u>	<u>0.5</u>	<u>1</u>	<u>0.5</u>
<u>4</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>1</u>

3C7 NSLT HEALTH LAPSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for *NSLT health lapse risk* as equal to the loss in its *basic own funds* that would result from the combination of the following instantaneous events:
- (1) the *discontinuance* of 40% of the insurance *policies* for which *discontinuance* would result in an increase of *technical provisions* without the *risk margin*; and
 - (2) where *reinsurance contracts* cover *contracts of insurance* or *reinsurance contracts* that will be written in the future, the decrease of 40% of the number of those future *contracts of insurance* or *reinsurance contracts* used in the calculation of *technical provisions*.
2. A firm must apply the events referred to in 3C7.1 uniformly to relevant all *contracts of insurance* and *reinsurance contracts* and, in respect of any such *reinsurance contracts*, the firm must apply the event referred to in 3C7.1(1) to the underlying *contracts of insurance*.
3. For the purposes of determining the loss in its *basic own funds* under the event referred to in 3C7.1(1), the firm must base the calculation on the type of *discontinuance* that most negatively affects its *basic own funds* on a per *policy* basis.

3C8 SLT HEALTH UNDERWRITING RISK SUB-MODULE

1. The *SLT health underwriting risk* sub-module must consist of all of the following sub-modules:
- (1) the health *mortality risk* sub-module;
 - (2) the health *longevity risk* sub-module;
 - (3) the health *disability-morbidity risk* sub-module;
 - (4) the health *expense risk* sub-module;
 - (5) the *health revision risk* sub-module; and
 - (6) the *SLT health lapse risk* sub-module.
2. A firm must calculate the capital requirement for *SLT health underwriting risk* in accordance with the following formula:

$$SCR_{SLTh} = \sqrt{\sum_{i,j} CorrSLTH_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where:

- (1) the sum denotes all possible combinations (i, j) of the sub-modules set out in 3C8.1;
 - (2) $CorrSLTH_{(i, j)}$ denotes the correlation coefficient for *SLT health underwriting risk* for sub-modules i and j ; and
 - (3) SCR_i and SCR_j denote the capital requirements for risk sub-modules i and j respectively.
3. The correlation coefficient $CorrSLTH_{(i, j)}$ referred to in 3C8.2 must be equal to the value set out in row i and in column j of the following correlation matrix:

$i \backslash j$	<u>Health mortality</u>	<u>Health longevity</u>	<u>Health disability-morbidity</u>	<u>Health expense</u>	<u>Health revision</u>	<u>SLT health lapse</u>
<u>Health mortality</u>	1	-0.25	0.25	0.25	0	0
<u>Health longevity</u>	-0.25	1	0	0.25	0.25	0.25
<u>Health disability-morbidity</u>	0.25	0	1	0.5	0	0
<u>Health expense</u>	0.25	0.25	0.5	1	0.5	0.5
<u>Health revision</u>	0	0.25	0	0.5	1	0
<u>SLT health lapse</u>	0	0.25	0	0.5	0	1

3C9 HEALTH MORTALITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for health *mortality risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 15% in the mortality rates used for the calculation of *technical provisions*.
2. A firm must only apply the increase in mortality rates referred to in 3C9.1 to those insurance *policies* for which an increase in mortality rates leads to an increase in *technical provisions* without the *risk margin* and in identifying such *policies*, the firm may make the following assumptions:
 - (1) multiple insurance *policies* in respect of the same insured *person* may be treated as if they were one insurance *policy*; and
 - (2) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Technical Provisions – Further Requirements 20, the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result that is not materially different.
3. With regard to *reinsurance* obligations, the identification of the *policies* for which *technical provisions* increase under an increase in mortality rates must only apply to the underlying insurance *policies* and must be carried out in accordance with 3C9.2.

3C10 HEALTH LONGEVITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for health *longevity risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent decrease of 20% in the mortality rates used for the calculation of *technical provisions*.
2. A firm must only apply the decrease in mortality rates referred to in 3C10.1 to those insurance *policies* for which a decrease in mortality rates leads to an increase in *technical provisions* without the *risk margin* and in identifying such *policies*, the *firm* may make the following assumptions:
 - (1) multiple insurance *policies* in respect of the same insured *person* may be treated as if they were one insurance *policy*; and
 - (2) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Technical Provisions – Further Requirements 20, the identification of the *policies* for which *technical provisions* increase under a decrease in mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result that is not materially different.
3. With regard to *reinsurance* obligations, the identification of the *policies* for which *technical provisions* increase under a decrease in mortality rates must only apply to the underlying insurance *policies* and must be carried out in accordance with 3C10.2.

3C11 HEALTH DISABILITY-MORBIDITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for health *disability-morbidity risk* as the sum of the following:
 - (1) the capital requirement for medical expense *disability-morbidity risk*; and
 - (2) the capital requirement for income protection *disability-morbidity risk*.
2. A firm must apply:
 - (1) the scenarios underlying the calculation of the capital requirement for medical expense *disability-morbidity risk* only to *medical expense insurance obligations* and *medical expense reinsurance obligations* where the underlying business is pursued on a similar technical basis to that of life insurance; and
 - (2) the scenarios underlying the calculation of the capital requirement for income protection *disability-morbidity risk* only to *income protection insurance obligations* and *income protection reinsurance obligations* where the underlying business is pursued on a similar technical basis to that of life insurance.

3C12 CAPITAL REQUIREMENT FOR MEDICAL EXPENSE DISABILITY-MORBIDITY RISK

1. A firm must calculate the capital requirement for medical expense *disability-morbidity risk* as equal to the higher of the following capital requirements:
 - (1) the capital requirement for the increase of medical payments; and
 - (2) the capital requirement for the decrease of medical payments.
2. A firm must calculate the capital requirement for the increase of medical payments as equal to the loss in its *basic own funds* that would result from the following combination of instantaneous permanent changes:
 - (1) an increase of 5% in the amount of medical payments taken into account in the calculation of *technical provisions*; and

- (2) an increase of one percentage point in the inflation rate of medical payments (expressed as a percentage) used for the calculation of *technical provisions*.
3. A firm must calculate the capital requirement for the decrease of medical payments as equal to the loss in its *basic own funds* that would result from the following combination of instantaneous permanent changes:
- (1) a decrease of 5% in the amount of medical payments taken into account in the calculation of *technical provisions*; and
- (2) a decrease of one percentage point in the inflation rate of medical payments (expressed as a percentage) used for the calculation of *technical provisions*.

3C13 CAPITAL REQUIREMENT FOR INCOME PROTECTION DISABILITY-MORBIDITY RISK

1. A firm must calculate the capital requirement for income protection *disability-morbidity risk* as equal to the loss in its *basic own funds* that would result from the following combination of instantaneous permanent changes:
- (1) an increase of 35% in the disability and morbidity rates that are used in the calculation of *technical provisions* to reflect the disability and morbidity in the following 12 months;
- (2) an increase of 25% in the disability and morbidity rates that are used in the calculation of *technical provisions* to reflect the disability and morbidity in the years after the following 12 months;
- (3) where the disability and morbidity recovery rates used in the calculation of *technical provisions* are lower than 50%, a decrease of 20% in those rates; and
- (4) where the disability and morbidity persistency rates used in the calculation of *technical provisions* are equal to or lower than 50%, an increase of 20% in those rates.

3C14 HEALTH EXPENSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for health *expense risk* as equal to the loss in its *basic own funds* that would result from the following combination of instantaneous permanent changes:
- (1) an increase of 10% in the amount of expenses taken into account in the calculation of *technical provisions*; and
- (2) an increase of one percentage point in the expense inflation rate (expressed as a percentage) used for the calculation of *technical provisions*.

With regard to *reinsurance* obligations, a firm must apply those changes to its own expenses and, where relevant, to the expenses of the ceding undertakings.

3C15 HEALTH REVISION RISK SUB-MODULE

1. A firm must calculate the capital requirement for *health revision risk* as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 4% in the amount of annuity benefits, only on annuity insurance and *reinsurance* obligations where the benefits payable under the underlying insurance *policies* could increase as a result of changes in inflation, the legal environment or the state of health of the *person insured*.

3C16 SLT HEALTH LAPSE RISK SUB-MODULE

1. A firm must calculate the capital requirement for *SLT health lapse risk* as equal to the higher of the following capital requirements:

- (1) capital requirement for the risk of a permanent increase in *SLT health* lapse rates;
 - (2) capital requirement for the risk of a permanent decrease in *SLT health* lapse rates; and
 - (3) capital requirement for *SLT health* mass lapse risk.
2. A firm must calculate the capital requirement for the risk of a permanent increase in *SLT health* lapse rates as equal to the loss in its *basic own funds* that would result from an instantaneous permanent increase of 50% in the exercise rates of the relevant options (as set out in 3C16.4 and 3C16.5), provided that the increased option exercise rates must not exceed 100% and the increase in option exercise rates must only apply to relevant options for which the exercise would result in an increase in *technical provisions* without the *risk margin*.
3. A firm must calculate the capital requirement for the risk of a permanent decrease in *SLT health* lapse rates as equal to the loss in its *basic own funds* that would result from an instantaneous permanent decrease of 50% in the option exercise rates of the relevant options (as set out in 3C16.4 and 3C16.5), provided that, the decrease in option exercise rates must not exceed 20 percentage points and the decrease in option exercise rates must only apply to relevant options for which the exercise would result in a decrease in *technical provisions* without the *risk margin*.
4. The relevant options for the purposes of 3C16.2 and 3C16.3 must be the following:
- (1) all legal or contractual *policyholder* rights to fully or partly terminate, *surrender*, decrease, restrict or suspend the insurance or *reinsurance* cover or permit the insurance *policy* to lapse; and
 - (2) all legal or contractual *policyholder* rights to fully or partially establish, renew, increase, extend or resume the insurance or *reinsurance* cover.
- For the purposes of 3C16.4(2), the change in the option exercise rate referred to in 3C16.2 and 3C16.3 should be applied to the rate reflecting that the relevant option is not exercised.
5. In relation to *reinsurance contracts*, the relevant options for the purposes of 3C16.2 and 3C16.3 must be the following:
- (1) the rights referred to in 3C16.4 of the *policyholders* of the *reinsurance contracts*;
 - (2) the rights set out in 3C16.4 of the *policyholders* of the *contracts of insurance* underlying the *reinsurance contracts*; and
 - (3) where *reinsurance contracts* cover *contracts of insurance* or *reinsurance contracts* that will be written in the future, the right of the potential *policyholders* not to conclude those *contracts of insurance* or *reinsurance contracts*.
6. A firm must calculate the capital requirement for *SLT health* mass lapse risk as equal to the loss in its *basic own funds* that would result from a combination of the following instantaneous events:
- (1) the *discontinuance* of 40% of the insurance *policies* for which *discontinuance* would result in an increase in *technical provisions* without the *risk margin*; and
 - (2) where *reinsurance contracts* cover *contracts of insurance* or *reinsurance contracts* that will be written in the future, the decrease of 40% of the number of those future *contracts of insurance* or *reinsurance contracts* used in the calculation of *technical provisions*.
7. A firm must apply the events referred to in 3C16.6 uniformly to all relevant *contracts of insurance* and *reinsurance contracts* and in respect of any such *reinsurance contracts*, the firm must apply the event referred to in 3C16.6(1) to the underlying *contracts of insurance*.
8. For the purposes of determining the loss in its *basic own funds* under the event referred to in 3C16.6(1), the firm must base the calculation on the type of *discontinuance* that most negatively affects its *basic own funds* on a per *policy* basis.

9. Where the highest of the capital requirements referred to in 3C16.1(1), (2) and (3) and the highest of the corresponding capital requirements calculated in accordance with 6.3(2) are not based on the same scenario, the capital requirement for *lapse risk* must be the capital requirement referred to in 3C16.1(1), (2) and (3) for which the underlying scenario results in the highest corresponding capital requirement calculated in accordance with 6.3(2).

3C17 HEALTH CATASTROPHE RISK SUB-MODULE

1. A firm must calculate the capital requirement for the *health catastrophe risk* sub-module in accordance with the following formula:

$$SCR_{healthCAT} = \sqrt{SCR_{ma}^2 + SCR_{ac}^2 + SCR_p^2}$$

where:

- (1) SCR_{ma} denotes the capital requirement for the mass accident risk sub-module;
 - (2) SCR_{ac} denotes the capital requirement for the accident concentration risk sub-module; and
 - (3) SCR_p denotes the capital requirement for the pandemic risk sub-module.
2. A firm must apply:
- (1) the mass accident risk sub-module to *health insurance obligations* and *health reinsurance obligations* other than *workers' compensation insurance obligations* and *workers' compensation reinsurance obligations*;
 - (2) the accident concentration risk sub-module to *workers' compensation insurance obligations* and *workers' compensation reinsurance obligations* and to *group income protection insurance obligations* and *group income protection reinsurance obligations*; and
 - (3) the pandemic risk sub-module to *health insurance obligations* and *health reinsurance obligations* other than *workers' compensation insurance obligations* and *workers' compensation reinsurance obligations*.

3C18 MASS ACCIDENT RISK SUB-MODULE

1. A firm must calculate the capital requirement for the mass accident risk sub-module in accordance with the following formula:

$$SCR_{ma} = \sqrt{\sum_s SCR_{(ma,s)}^2}$$

where:

- (1) the sum includes all countries set out in Annex XVI; and
 - (2) $SCR_{(ma,s)}$ denotes the capital requirement for mass accident risk of country s .
2. For all countries set out in Annex XVI, a firm must calculate the capital requirement for mass accident risk of a particular country s as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_{(ma,s)} = r_s \cdot \sum_e x_e \cdot E_{(e,s)}$$

where:

- (1) r_s denotes the ratio of *persons* affected by the mass accident in country s as set out in Annex XVI;
- (2) the sum includes the event types e set out in Annex XVI;
- (3) x_e denotes the ratio of *persons* who will receive benefits attributable to event type e as a result of the accident as set out in Annex XVI; and
- (4) $E_{(e,s)}$ denotes the total value of benefits payable by the *firm* in respect of event type e in country s .
3. For all event types set out in Annex XVI and all countries set out in Annex XVI, a *firm* must calculate its sum insured for a particular event type e in a particular country s in accordance with the following formula:
- $$E_{(e,s)} = \sum_i SI_{(e,i)}$$
- where:
- (1) the sum includes all insured *persons* i of the *firm* who are insured against event type e and are inhabitants of country s ; and
- (2) $SI_{(e,i)}$ denotes the value of the benefits payable by the *firm* for the insured *person* i in case of event type e .
4. For the purposes of 3C18.3(2), a *firm* must calculate the value of the benefits as the sum insured or where the *contract of insurance* provides for recurring benefit payments the *best estimate* of the benefit payments in case of event type e . Where the benefits of a *contract of insurance* depend on the nature or extent of any injury resulting from event type e , the calculation of the value of the benefits must be based on the maximum benefits payable under the *contract of insurance* that are consistent with the event. For *medical expense insurance obligations* and *medical expense reinsurance obligations* the value of the benefits must be based on an estimate of the average amounts paid in case of event type e , assuming the insured *person* is disabled for the duration specified and taking into account the specific guarantees included within the obligations.
5. Subject to 7.2, a *firm* may calculate the value of benefits payable for the insured *person* referred to in 3C18.3(2) based on homogenous risk groups, provided that the grouping of *policies* complies with Technical Provisions – Further Requirements 20.

3C19 ACCIDENT CONCENTRATION RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for the accident concentration risk sub-module in accordance with the following formula:
- $$SCR_{ac} = \sqrt{\sum_c SCR_{(ac,c)}^2}$$
- where:
- (1) the sum includes all countries c ; and
- (2) $SCR_{(ac,c)}$ denotes the capital requirement for accident concentration risk of country c .
2. For all countries a *firm* must calculate the capital requirement for accident concentration risk of country c as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_{(ac,c)} = C_c \cdot \sum_e x_e \cdot CE_{(e,c)}$$

where:

- (1) C_c denotes the largest accident risk concentration of the *firm* in country c ;
 - (2) the sum includes the event types e set out in Annex XVI;
 - (3) x_e denotes the ratio of *persons* who will receive benefits attributable to event type e as a result of the accident as set out in Annex XVI; and
 - (4) $CE_{(e, c)}$ denotes the average value of benefits payable by the *firm* for event type e for the largest accident risk concentration in country c .
3. For all countries, a *firm* must calculate the highest accident risk concentration of a *firm* in country c as equal to the highest number of *persons* for which all of the following requirements are met:
- (1) the *firm* has a *workers' compensation insurance obligation* or a *workers' compensation reinsurance obligation* or a group *income protection insurance obligation* or a group *income protection reinsurance obligation* in relation to each of the *persons*;
 - (2) the obligations in relation to each of the *persons* cover at least one of the events set out in Annex XVI; and
 - (3) the *persons* are working in the same building, which is situated in country c .
4. For all event types and countries, a *firm* must calculate its average sum insured for event type e for the largest accident risk concentration in country c in accordance with the following formula:

$$CE_{(e, c)} = \frac{1}{N_e} \sum_{i=1}^{N_e} SI_{(e, i)}$$

where:

- (1) N_e denotes the number of insured *persons* who are insured by the *firm* against event type e and who belong to the largest accident risk concentration of the *firm* in country c ;
 - (2) the sum includes all the insured *persons* referred to in (1); and
 - (3) $SI_{(e, i)}$ denotes the value of the benefits payable by the *firm* for the insured *person* i in case of event type e .
5. For the purposes of 3C19.4(3), a *firm* must calculate the value of the benefits as the sum insured or where the *contract of insurance* provides for recurring benefit payments the *best estimate* of the benefit payments in case of event type e . Where the benefits of an insurance *policy* depend on the nature or extent of the injury resulting from event type e , the calculation of the value of the benefits must be based on the maximum benefits payable under the *policy*, that are consistent with the event. For *medical expense insurance obligations* and *medical expense reinsurance obligations* the value of the benefits must be based on an estimate of the average amounts paid in case of event type e , assuming the insured *person* is disabled for the duration specified and taking into account the specific guarantees included within the obligations.
6. Subject to 7.2, a *firm* may calculate the value of the benefits referred to in 3C19.4(3) based on homogenous risk groups, provided that the grouping of *policies* complies with the requirements set out in Technical Provisions – Further Requirements 20.

3C20 PANDEMIC RISK SUB-MODULE

1. A *firm* must calculate the capital requirement for the pandemic risk sub-module as equal to the loss in its *basic own funds* that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, is calculated in accordance with the following formula:

$$L_p = 0.000075 \cdot E + 0.4 \cdot \sum_c N_c \cdot M_c$$

where:

- (1) E denotes the income protection pandemic exposure of the *firm*;
- (2) the sum includes all countries c ;
- (3) N_c denotes the number of insured *persons* of the *firm* who meet all of the following requirements:
 - (a) the insured *persons* are inhabitants of country c ; and
 - (b) the insured *persons* are covered by a *contract of insurance* that includes *medical expense insurance obligations* or *medical expense reinsurance obligations*, other than *workers' compensation insurance obligations* or *workers' compensation reinsurance obligations*, that cover medical expenses resulting from an infectious disease; and
- (4) M_c denotes the expected average amount payable by the *firm* per insured *person* of country c in case of a pandemic.

2. A *firm* must calculate its income protection pandemic exposure in accordance with the following formula:

$$E = \sum_i E_i$$

where:

- (1) the sum includes all insured *persons* i covered by a *contract of insurance* that includes *income protection insurance obligations* or *income protection reinsurance obligations* other than *workers' compensation insurance obligations* or *workers' compensation reinsurance obligations*;
 - (2) E_i denotes the value of the benefits payable by the *firm* for the insured *person* i in case of a permanent work disability caused by an infectious disease. The value of the benefits must be the sum insured or, where the *contract of insurance* provides for recurring benefit payments, the *best estimate* of the benefit payments assuming that the insured *person* is permanently disabled and will not recover.
3. For all countries, a *firm* must calculate the expected average amount payable by the *firm* per insured *person* of a particular country c in case of a pandemic in accordance with the following formula:

$$M_c = \sum_h H_h \cdot CH_{(h,c)}$$

where:

- (1) the sum includes the types of healthcare utilisation h set out in Annex XVI;
- (2) H_h denotes the ratio of insured *persons* with clinical symptoms utilising healthcare type h as set out in Annex XVI; and
- (3) $CH_{(h,c)}$ denotes the *best estimate* of the amounts payable by the *firm* for an insured *person* in country c in relation to *medical expense insurance obligations* or *medical expense reinsurance obligations*, other than *workers' compensation insurance obligations* or *workers' compensation reinsurance obligations*, for healthcare utilisation type h in the event of a pandemic.

3D MARKET RISK MODULE

3D1 LISTS OF REGIONAL GOVERNMENTS AND LOCAL AUTHORITIES

1. A firm must treat exposures to the Scottish Government, the Welsh Government and the Northern Ireland Executive as exposures to the central government of the UK for the calculation of the market risk module of the standard formula.

QUALIFYING INFRASTRUCTURE INVESTMENTS

3D2 QUALIFYING INFRASTRUCTURE INVESTMENTS

1. The requirements that must be met for an investment in an *infrastructure entity* to constitute a *qualifying infrastructure investment* are as follows:
 - (1) the cash-flows generated by the *infrastructure assets* allow for all financial obligations to be met under sustained stresses that are relevant for the risks of the project;
 - (2) the cash-flows that the *infrastructure entity* generates for debt providers and equity investors are predictable;
 - (3) the *infrastructure assets* and *infrastructure entity* are governed by a regulatory or contractual framework that provides debt providers and equity investors with a high degree of protection including the following:
 - (a) the contractual framework must include provisions that effectively protect debt providers and equity investors against losses resulting from the termination of the project by the party which agrees to purchase the goods or services provided by the infrastructure project, unless one of the following requirements is met:
 - (i) the revenues of the *infrastructure entity* are funded by payments from a large number of users; or
 - (ii) the revenues are subject to a rate-of-return regulation; and
 - (b) the *infrastructure entity* has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project.
 - (4) where investments are in bonds or loans, this contractual framework must also include the following:
 - (a) debt providers have security or the benefit of security to the extent permitted by applicable law in all assets and contracts that are critical to the operation of the project;
 - (b) the use of net operating cash-flows after mandatory payments from the project for purposes other than servicing debt obligations is restricted; and
 - (c) restrictions on activities that may be detrimental to debt providers, including that new debt cannot be issued without the consent of existing debt providers in the form agreed with them, unless such new debt issuance is permitted under the documentation for the existing debt;
 - (5) notwithstanding (4)(a), for investments in bonds or loans, where a *firm* can demonstrate that security in all assets and contracts is not essential for debt providers to effectively protect or recover the vast majority of their investment, other security mechanisms may be used, provided they comprise at least one of the following:
 - (a) pledge of *shares*;

- (b) step-in rights;
- (c) lien over bank accounts;
- (d) control over cash-flows; or
- (e) provisions for assignment of contracts;
- (6) where investments are in bonds or loans, the *firm* is able to hold the investment to maturity and, subject to 3D2.3, has notified the *PRA* of this in writing before it treats an investment as a *qualifying infrastructure investment*;
- (7) where investments are in bonds or loans for which a credit assessment by a nominated *external credit assessment institution* is not available, the investment instrument and other *pari passu* instruments are senior to all other claims other than statutory claims and claims from liquidity facility providers, trustees and *derivatives counterparties*; and
- (8) where investments are in equities, or bonds or loans for which a credit assessment by a nominated *external credit assessment institution* is not available, the following criteria are met:
 - (a) the *infrastructure assets* and *infrastructure entity* are located in the *OECD*;
 - (b) where the infrastructure project is in the construction phase the following criteria must be fulfilled by the equity investor, or where there is more than one equity investor, the following criteria must be fulfilled by a *group* of equity investors as a whole:
 - (i) the equity investors have a history of successfully overseeing infrastructure projects and the relevant expertise;
 - (ii) the equity investors have a low risk of default, or there is a low risk of material losses for the *infrastructure entity* as a result of their default; and
 - (iii) the equity investors are incentivised to protect the interests of investors;
 - (c) where there are construction risks, safeguards exist to ensure completion of the project according to the agreed specification, budget or completion date;
 - (d) where operating risks are material, they are properly managed;
 - (e) the *infrastructure entity* uses tested technology and design;
 - (f) the capital structure of the *infrastructure entity* allows it to service its debt;
 - (g) the refinancing risk for the *infrastructure entity* is low; and
 - (h) the *infrastructure entity* uses *derivatives* only for risk-mitigation purposes.
- 2. For the purposes of 3D2.1(2), a *firm* must not treat the cash-flows generated for debt providers and equity investors as predictable unless all except an immaterial part of the revenues satisfy the following requirements:
 - (1) one of the following criteria is met:
 - (a) the revenues are availability-based;
 - (b) the revenues are subject to a rate-of-return regulation;
 - (c) the revenues are subject to a take-or-pay contract; or
 - (d) the level of output or the usage and the price must independently meet one of the following criteria:
 - (i) it is regulated;
 - (ii) it is contractually fixed; or

- (iii) it is sufficiently predictable as a result of low demand risk; and
- (2) where the revenues of the *infrastructure entity* are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the infrastructure project entity must be one of the following:
 - (a) an entity listed in 3D24.2;
 - (b) a body listed in 3D1;
 - (c) an entity with an *external credit assessment institution* rating with a *credit quality step* of at least 3; or
 - (d) an entity that is replaceable without a significant change in the level and timing of revenues.
- 3. Where a *firm* treated an investment as a qualifying infrastructure investment in accordance with Article 164a of Commission Delegated Regulation (EU) 2015/35 immediately before 31 December 2024 and from 31 December 2024 treats that investment as a *qualifying infrastructure investment*, the *firm* must notify in writing the *PRA* by 31 January 2025.

3D3 QUALIFYING INFRASTRUCTURE CORPORATE INVESTMENTS

- 1. The requirements that must be met for an investment in an *infrastructure entity* to constitute a *qualifying infrastructure corporate investment* are as follows:
 - (1) the substantial majority of the *infrastructure entity*'s revenues is derived from owning, financing, developing or operating *infrastructure assets* located in the *OECD*;
 - (2) the revenues generated by the *infrastructure assets* satisfy one of the criteria set out in 3D2.2(1);
 - (3) where the revenues of the *infrastructure entity* are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the *infrastructure entity* must be one of the entities listed in 3D2.2(2);
 - (4) the revenues must be diversified in terms of activities, location, or payers, unless the revenues are subject to a rate-of-return regulation in accordance with 3D2.1(3)(a)(ii) or a take-or-pay contract or the revenues are availability based;
 - (5) where investments are in bonds or loans, the *firm* is able to hold the investment to maturity and, subject to 3D3.2, has notified the *PRA* of this in writing before it treats an investment as a *qualifying infrastructure corporate investment*;
 - (6) where no credit assessment from a nominated *external credit assessment institution* is available for the *infrastructure entity*:
 - (a) the capital structure of the *infrastructure entity* must allow it to service all its debt under conservative assumptions based on an analysis of the relevant financial ratios; and
 - (b) the *infrastructure entity* must have been active for at least three years or, in the case of an acquired business, it must have been in operation for at least three years; and
 - (7) where a credit assessment from a nominated *external credit assessment institution* is available for the *infrastructure entity*, such credit assessment has a *credit quality step* between 0 and 3.
- 2. Where a *firm* treated an investment as a qualifying infrastructure corporate investment in accordance with Article 164b of Commission Delegated Regulation (EU) 2015/35 immediately

before 31 December 2024 and from 31 December 2024 treats that investment as a *qualifying infrastructure corporate investment*, the *firm* must notify the *PRA* in writing by 31 January 2025.

INTEREST RATE RISK SUB-MODULE

3D4 GENERAL PROVISIONS

1. A firm must calculate the capital requirement for *interest-rate risk* as equal to the higher of the following:
 - (1) the sum, over all currencies, of the capital requirements for the risk of an increase in the term structure of interest rates as set out in 3D5; and
 - (2) the sum, over all currencies, of the capital requirements for the risk of a decrease in the term structure of interest rates as set out in 3D6.
2. Where the higher of the capital requirements referred to in 3D4.1(1) and (2) and the higher of the corresponding capital requirements calculated in accordance with 6.3(2) are not based on the same scenario, the capital requirement for *interest-rate risk* must be the capital requirement referred to in 3D4.1(1) and (2) for which the underlying scenario results in the highest corresponding capital requirement calculated in accordance with 6.3(2).

3D5 INCREASE IN THE TERM STRUCTURE OF INTEREST RATES

1. A firm must calculate the capital requirement for the risk of an increase in the term structure of interest rates for a given currency as equal to the loss in its *basic own funds* that would result from an instantaneous increase in basic risk-free interest rates for that currency at different maturities in accordance with the following table:

<u>Maturity</u> <u>(in years)</u>	<u>Increase</u>
<u>1</u>	<u>70%</u>
<u>2</u>	<u>70%</u>
<u>3</u>	<u>64%</u>
<u>4</u>	<u>59%</u>
<u>5</u>	<u>55%</u>
<u>6</u>	<u>52%</u>
<u>7</u>	<u>49%</u>
<u>8</u>	<u>47%</u>
<u>9</u>	<u>44%</u>
<u>10</u>	<u>42%</u>
<u>11</u>	<u>39%</u>
<u>12</u>	<u>37%</u>

<u>13</u>	<u>35%</u>
<u>14</u>	<u>34%</u>
<u>15</u>	<u>33%</u>
<u>16</u>	<u>31%</u>
<u>17</u>	<u>30%</u>
<u>18</u>	<u>29%</u>
<u>19</u>	<u>27%</u>
<u>20</u>	<u>26%</u>
<u>90</u>	<u>20%</u>

2. For maturities not specified in the table above, the value of the increase must be linearly interpolated, provided that:
- (1) for maturities shorter than 1 year, the increase must be 70%; and
 - (2) for maturities longer than 90 years, the increase must be 20%.
3. In any case, the increase of basic risk-free interest rates at any maturity must be at least one percentage point.
4. The impact of the increase in the *basic relevant risk-free rate term structure* on the value of *participations in financial institutions and credit institutions* as referred to in Own Funds 3K.6 must only be taken into account on the value of the *participations* that are not deducted from *own funds* pursuant to Own Funds 3K and the part deducted from *own funds* must only be taken into account to the extent that such impact increases the *basic own funds*.

3D6 DECREASE IN THE TERM STRUCTURE OF INTEREST RATES

1. A *firm* must calculate the capital requirement for the risk of a decrease in the term structure of interest rates for a given currency as equal to the loss in its *basic own funds* that would result from an instantaneous decrease in basic risk-free interest rates for that currency at different maturities in accordance with the following table:

<u>Maturity</u> <u>(in years)</u>	<u>Decrease</u>
<u>1</u>	<u>75%</u>
<u>2</u>	<u>65%</u>
<u>3</u>	<u>56%</u>
<u>4</u>	<u>50%</u>
<u>5</u>	<u>46%</u>
<u>6</u>	<u>42%</u>

<u>7</u>	<u>39%</u>
<u>8</u>	<u>36%</u>
<u>9</u>	<u>33%</u>
<u>10</u>	<u>31%</u>
<u>11</u>	<u>30%</u>
<u>12</u>	<u>29%</u>
<u>13</u>	<u>28%</u>
<u>14</u>	<u>28%</u>
<u>15</u>	<u>27%</u>
<u>16</u>	<u>28%</u>
<u>17</u>	<u>28%</u>
<u>18</u>	<u>28%</u>
<u>19</u>	<u>29%</u>
<u>20</u>	<u>29%</u>
<u>90</u>	<u>20%</u>

2. For maturities not specified in the table above, the value of the decrease must be linearly interpolated, provided that:
 - (1) for maturities shorter than 1 year, the decrease must be 75%; and
 - (2) for maturities longer than 90 years, the decrease must be 20%.
3. Notwithstanding 3D6.1 and 3D6.2, for negative basic risk-free interest rates the decrease must be nil.
4. The impact on the value of *participations* as referred to in Own Funds 3K.6 in *financial institutions* and *credit institutions* of the decrease in the *basic relevant risk-free interest rate term structure* must only be taken into account on the value of the *participations* that are not deducted from *own funds* pursuant to Own Funds 3K and the part deducted from *own funds* must only be taken into account to the extent that such impact increases the *basic own funds*.

EQUITY RISK SUB-MODULE

3D7 GENERAL PROVISIONS

1. The *equity risk* sub-module must include a risk sub-module for type 1 equities, a risk sub-module for type 2 equities, a risk sub-module for qualifying infrastructure equities and a risk sub-module for qualifying infrastructure corporate equities.
2. A firm must treat as type 1 equities:
 - (1) those listed in 3D7.8; and

- (2) equities listed in *regulated markets* in countries which are members of the *OECD*, or traded on multilateral trading facilities, as defined in Article 3 of the *RAO*, whose registered office or head office is in an EU Member State.
3. A firm must treat as type 2 equities:
- (1) equities other than those referred to in 3D7.2, commodities and other alternative investments; and
- (2) all assets other than those covered in the *interest-rate risk* sub-module, the *property risk* sub-module or the *spread risk* sub-module, including the assets and indirect exposures referred to in 2.3(1) and (2) where a *look-through approach* is not possible and the *firm* does not make use of the provisions in 2.3(3) and (4).
4. A firm must treat as qualifying infrastructure equities equity investments in *infrastructure entities* that meet the requirements set out in 3D2.
5. A firm must treat as qualifying infrastructure corporate equities equity investments in *infrastructure entities* that meet the requirements set out in 3D3.
6. A firm must calculate the capital requirement for *equity risk* in accordance with the following formula:
- $$SCR_{equity} = \sqrt{SCR_{equ1}^2 + 2 \cdot 0.75 \cdot SCR_{equ1} \cdot (SCR_{equ2} + SCR_{quinf} + SCR_{quinf_c}) + (SCR_{equ2} + SCR_{quinf} + SCR_{quinf_c})^2}$$
- where:
- (a) SCR_{equ1} denotes the capital requirement for type 1 equities;
- (b) SCR_{equ2} denotes the capital requirement for type 2 equities;
- (c) SCR_{quinf} denotes the capital requirement for qualifying infrastructure equities; and
- (d) SCR_{quinf_c} denotes the capital requirement for qualifying infrastructure corporate equities.
7. The impact of the instantaneous decreases set out in 3D9 and 3D10 on the value of *participations* as referred to in Own Funds 3K.6 in *financial institutions* and *credit institutions* must only be taken into account on the value of the *participations* that are not deducted from *own funds* pursuant to Own Funds 3K.
8. A firm must treat the following equities as type 1:
- (1) equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within *collective investment undertakings* which are qualifying social entrepreneurship funds as referred to in Article 3(b) of Regulation (EU) No 346/2013 of the European Parliament and of the Council where the *look-through approach* is possible for all exposures within the *collective investment undertaking*, or *units* or *shares* of those funds where the *look-through approach* is not possible for all exposures within the *collective investment undertaking*;
- (2) equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within *collective investment undertakings* which are qualifying venture capital funds as referred to in Article 3(b) of Regulation (EU) No 345/2013 of the European Parliament and of the Council where the *look-through approach* is possible for all exposures within the *collective investment undertaking*, or *units* or *shares* of those funds where the *look-through approach* is not possible for all exposures within the *collective investment undertaking*;
- (3) as regards closed-ended *alternative investment funds* which are established in the *UK* or, if they are not established in the *UK*, which are marketed in the *UK* in accordance with regulations 49, 50 and 54 of the Alternative Investment Fund Managers Regulations

2013/1773 in the form such regulations will take when regulation 3 and Schedule 1 of the Alternative Investment Fund Managers (Amendment) Regulations 2013/1797 come into force and which, in either case, have no leverage in accordance with the commitment method set out in Article 8 of Commission Delegated Regulation (EU) No 231/2013:

- (a) equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within such funds where the *look-through approach* is possible for all exposures within the *alternative investment fund*; and
- (b) *units* or *shares* of such funds where the *look-through approach* is not possible for all exposures within the *alternative investment fund*; and
- (4) qualifying unlisted equity portfolios as defined in 3D8.

3D8 QUALIFYING UNLISTED EQUITY PORTFOLIOS

1. For the purposes of 3D7.8(4), a qualifying unlisted equity portfolio is a set of equity investments that meets all of the following requirements:

- (1) the set of investments consists solely of investments in the ordinary *shares* of companies;
- (2) the ordinary *shares* of each of the companies concerned are not listed in any *regulated market*;
- (3) each company has its head office in the *UK*;
- (4) more than 50% of the annual revenue of each company is denominated in currencies of countries which are members of the *OECD*;
- (5) more than 50% of the staff employed by each company have their principal place of work in the *UK*;
- (6) each company fulfils at least one of the following requirements for each of the last three financial years ending prior to the date on which the *SCR* is being calculated:
 - (a) the annual turnover of the company exceeds GBP 8,800,000;
 - (b) the balance sheet total of the company exceeds GBP 8,800,000; or
 - (c) the number of staff employed by the company exceeds 50;
- (7) the value of the investment in each company represents no more than 10% of the total value of the set of investments;
- (8) none of the companies is a *UK Solvency II undertaking*, a *credit institution*, an *investment firm*, a *financial institution*, an *alternative investment fund manager*, a *UCITS management company*, an *institution for occupational retirement provision* or a *non-regulated undertaking carrying out financial activities*; and
- (9) the beta of the set of investments does not exceed 0.796.

2. For the purposes of 3D8.1(9), the beta of a set of investments is the average of the betas for each of the investments in that set of investments, weighted by the book values of those investments and a *firm* must determine the beta of an investment in a company in accordance with the following formula:

$$\beta = 0.9478 - 0.0034 \cdot GM + 0.0139 \cdot \frac{Debt}{CFO} - 0.0015 \cdot ROCE$$

where:

- (a) β is the beta of the equity investment in the company;

- (b) GM is the average gross margin for the company over the last five financial years ending prior to the date on which the SCR is being calculated;
- (c) Debt is the total debt of the company at the end of the most recent financial year for which figures are available;
- (d) CFO is the average net cash-flow for the company from operations over the last five financial years ending prior to the date on which the SCR is being calculated; and
- (e) ROCE is the average return on common equity for the company over the last five financial years ending prior to the date on which the SCR is being calculated. Common equity for these purposes shall mean capital and reserves as referred to in Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008/410 as amended from time to time excluding preference shares and the related share premium account.

3D9 STANDARD EQUITY RISK SUB-MODULE

1. A firm must calculate the capital requirement for type 1 equities referred to in 3D7 as equal to the loss in its *basic own funds* that would result from the following instantaneous decreases:
 - (1) an instantaneous decrease equal to 22% in the value of type 1 equity investments in *related undertakings* where these investments are of a strategic nature, in accordance with 3D10;
 - (2) an instantaneous decrease equal to 22% in the value of type 1 equity investments that are treated as long-term equity investments in accordance with 3D11; and
 - (3) an instantaneous decrease equal to the sum of 39% and the *symmetric adjustment*, in the value of type 1 equities other than those referred to in (1) and (2).
2. A firm must calculate the capital requirement for type 2 equities referred to in 3D7 as equal to the loss in its *basic own funds* that would result from the following instantaneous decreases:
 - (1) an instantaneous decrease equal to 22% in the value of type 2 equity investments in *related undertakings* where these investments are of a strategic nature, in accordance with 3D10;
 - (2) an instantaneous decrease equal to 22% in the value of type 2 equity investments that are treated as long-term equity *investments* in accordance with 3D11; and
 - (3) an instantaneous decrease equal to the sum of 49% and the *symmetric adjustment*, in the value of type 2 equities other than those referred to in (1) and (2).
3. A firm must calculate the capital requirement for qualifying infrastructure equities referred to in 3D7 as equal to the loss in its *basic own funds* that would result from the following instantaneous decreases:
 - (1) an instantaneous decrease equal to 22% in the value of qualifying infrastructure equity investments in *related undertakings*, where those investments are of a strategic nature, in accordance with 3D10;
 - (2) an instantaneous decrease equal to 22% in the value of qualifying infrastructure equity investments that are treated as long-term equity investments in accordance with 3D11; and
 - (3) an instantaneous decrease equal to the sum of 30% and 77% of the *symmetric adjustment* in the value of qualifying infrastructure equity investments, other than those referred to in (1) and (2).

4. A firm must calculate the capital requirement for qualifying infrastructure corporate equities referred to in 3D7 as equal to the loss in its *basic own funds* that would result from the following instantaneous decreases:
- (1) an instantaneous decrease equal to 22% in the value of qualifying infrastructure corporate equity investments in *related undertakings* where those investments are of a strategic nature, in accordance with 3D10;
 - (2) an instantaneous decrease equal to 22% in the value of qualifying infrastructure corporate equity investments that are treated as long-term equity investments in accordance with 3D11; and
 - (3) an instantaneous decrease equal to the sum of 36% and 92% of the *symmetric adjustment* in the value of qualifying infrastructure corporate equities, other than those referred to in (1) and (2).

3D10 STRATEGIC EQUITY INVESTMENTS

1. For the purposes of 3D9.1(1), 3D9.2(1), 3D9.3(1) and 3D9.4(1), equity investments of a strategic nature means equity investments for which the *firm* holding a *participation* demonstrates the following:
- (1) that the value of the equity investment is likely to be materially less volatile for the following 12 months than the value of other equities over the same period as a result of both the nature of the investment and the influence exercised by the *firm* holding a *participation* in the *related undertaking*; and
 - (2) that the nature of the investment is strategic, taking into account all relevant factors, including:
 - (a) the existence of a clear decisive strategy to continue holding the *participation* for a long period;
 - (b) the consistency of the strategy referred to in (a) with the main policies guiding or limiting the actions of the *undertaking*;
 - (c) the *firm's* ability to continue holding the *participation* in the *related undertaking*;
 - (d) the existence of a durable link; and
 - (e) where the *firm* holding a *participation* is part of a *group*, the consistency of such strategy with the main policies guiding or limiting the actions of the *group*.

3D11 LONG-TERM EQUITY INVESTMENTS

1. A firm may treat a sub-set of equity investments as long-term equity investments if all of the following requirements are met and, subject to 3D11.4, the *firm* has notified the *PRA* in writing that it meets these requirements:
- (1) the sub-set of equity investments as well as the holding period of each equity investment within the sub-set are clearly identified;
 - (2) the sub-set of equity investments is included within a portfolio of assets which is assigned to cover the *best estimate* of a portfolio of insurance or *reinsurance* obligations corresponding to one or several clearly identified businesses, and the *firm* maintains that assignment over the lifetime of the obligations;
 - (3) the portfolio of insurance or *reinsurance* obligations, and the assigned portfolio of assets referred to in (2) are identified, managed and organised separately from the other activities

of the *firm*, and the assigned portfolio of assets cannot be used to cover losses arising from other activities of the *firm*;

- (4) the *technical provisions* within the portfolio of insurance or *reinsurance* obligations referred to in (2) only represent a part of the total *technical provisions* of the *firm*;
 - (5) the average holding period of equity investments in the sub-set exceeds five years, or where the average holding period of the sub-set is lower than five years, the *firm* does not sell any equity investments within the sub-set until the average holding period exceeds five years;
 - (6) the sub-set of equity investments consists only of equities that are listed in the *UK* or of unlisted equities of companies that have their head offices in *UK*;
 - (7) the solvency and liquidity position of the *firm*, as well as its strategies, processes and reporting procedures with respect to asset-liability management, are such as to ensure, on an ongoing basis and under stressed conditions, that it is able to avoid forced sales of each equity investments within the sub-set for at least 10 years; and
 - (8) the risk management, asset-liability management and investment policies of the *firm* reflects the *firm*'s intention to hold the sub-set of equity investments for a period that is compatible with the requirement of (5) and its ability to meet the requirement of (7).
2. Where equities are held within *collective investment undertakings* or within *alternative investment funds* that meet the requirements of 3D7.8(1) to (3), the requirements set out in 3D11.1 may be assessed at the level of the funds and not of the underlying assets held within those funds.
 3. A *firm* that treats a sub-set of equity investments as long-term equity investments in accordance with 3D11.1 must not revert back to an approach that does not include long-term equity investments, and if the *firm* is no longer able to comply with the requirements set out in 3D11.1, it must immediately inform the *PRA* in writing and cease to apply 3D9.1(2), 3D9.2(2), 3D9.3(2) and 3D9.4(2) to any of its equity investments for a period of 36 *months*.
 4. Where a *firm* treated a sub-set of equity investments as long-term equity investments in accordance with Article 171a of Commission Delegated Regulation (EU) 2015/35 immediately before 31 December 2024 and from 31 December 2024 treats that sub-set of equity investments as long-term equity investments, the *firm* must notify the *PRA* in writing by 31 January 2025.

3D12 SYMMETRIC ADJUSTMENT OF THE EQUITY CAPITAL CHARGE

1. The equity index upon which the *symmetric adjustment* to the *standard equity capital charge* is to be based must comply with all of the following requirements:
 - (1) the equity index measures the market price of a diversified portfolio of equities which is representative of the nature of equities typically held by *UK Solvency II undertakings*;
 - (2) the level of the equity index is publicly available; and
 - (3) the frequency of published levels of the equity index is sufficient to enable the current level of the index and its average value over the last 36 *months* to be determined.
2. Subject to 3D12.4, a *firm* must calculate the *symmetric adjustment* in accordance with the following formula:

$$SA = \frac{1}{2} \cdot \left(\frac{CI - AI}{AI} - 8\% \right)$$

where:

- (a) *C* denotes the current level of the equity index; and
- (b) *A* denotes the weighted average of the daily levels of the equity index over the last 36 months.
3. For the purposes of calculating the weighted average of the daily levels of the equity index, the weights for all daily levels must be equal and the days during the last 36 months in respect of which the index was not determined must not be included in the average.
4. The *symmetric adjustment* must not be lower than -10% or higher than 10%.

3D13 CALCULATION OF THE EQUITY INDEX

1. For the purpose of this Chapter, the following definitions apply:
- (1) 'last level' means the last value of the equity index for the day of reference published by the provider of the equity index; and
- (2) 'working day' means every day other than Saturdays and Sundays.
2. The level of the equity index referred to in 3D12 must be determined for each working day.
3. The level of the equity index for a particular working day must be the sum of the contributions of all equity indices included in 3D14 on that working day.
4. For each of the equity indices set out in 3D14, its contribution for a particular working day must be the product of its normalised level for the working day and the respective weight for the equity index as set out in 3D14.
5. For each of the equity indices set out in 3D14, its normalised level for a particular working day must be its last level on that working day divided by its last level on the first day of the 36 month period ending on the working day for which the level of the equity index as defined in 3D12.1 is being calculated, provided that where the last level of an equity index is not available for a specific day, the most recent last level before that day must be used.

3D14 CALCULATION OF THE EQUITY INDEX

1. The equity indices referred to in 3D13 are as follows:

<u>Equity indices (Price indices)</u>	<u>Weights</u>
<u>FTSE All-Share Index</u>	<u>0.48</u>
<u>Nikkei 225</u>	<u>0.07</u>
<u>S&P 500</u>	<u>0.30</u>
<u>FTSE Developed Europe ex UK (local currency)</u>	<u>0.15</u>

PROPERTY RISK SUB-MODULE

3D15 PROPERTY RISK SUB-MODULE

1. A firm must calculate the capital requirement for *property risk* as equal to the loss in its *basic own funds* that would result from an instantaneous decrease of 25% in the value of immovable property.

SPREAD RISK SUB-MODULE**3D16 SCOPE OF THE SPREAD RISK SUB-MODULE**

1. A firm must calculate the capital requirement for *spread risk* in accordance with the following formula:

$$SCR_{spread} = SCR_{bonds} + SCR_{securitisation} + SCR_{cd}$$

where:

- (a) SCR_{bonds} denotes the capital requirement for *spread risk* on bonds and loans;
 (b) $SCR_{securitisation}$ denotes the capital requirement for *spread risk* on *securitisation positions*; and
 (c) SCR_{cd} denotes the capital requirement for *spread risk* on *credit derivatives*.

3D17 SPREAD RISK ON BONDS AND LOANS

1. A firm must calculate the capital requirement for *spread risk* on bonds and loans SCR_{bonds} as equal to the loss in its *basic own funds* that would result from an instantaneous relative decrease of *stress_i* in the value of each bond or loan *i* other than mortgage loans that meet the requirements in 3E3, including bank deposits other than cash at bank referred to in 3.14(2).
2. A firm must calculate the risk factor *stress_i* by reference to the modified duration of the bond or loan *i* denominated in years (*dur_i*) provided that *dur_i* must never be lower than 1. For variable interest rate bonds or loans, *dur_i* must be equivalent to the modified duration of a fixed interest rate bond or loan of the same maturity and with coupon payments equal to the forward interest rate.
3. A firm must assign bonds or loans for which a credit assessment by a nominated *external credit assessment institution* is available a risk factor *stress_i* depending on the *credit quality step* and the modified duration *dur_i* of the bond or loan *i* according to the following table:

Credit quality step		0		1		2		3		4		5 and 6	
Duration	<i>stress_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>
(<i>dur_i</i>)													
Up to 5	$b_i \cdot dur_i$	=	0.9%	=	1.1%	=	1.4%	=	2.5%	=	4.5%	=	7.5%
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	4.5%	0.5%	5.5%	0.6%	7.0%	0.7%	12.5%	1.5%	22.5%	2.5%	37.5%	4.2%
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	7.0%	0.5%	8.5%	0.5%	10.5%	0.5%	20.0%	1.0%	35.0%	1.8%	58.5%	0.5%
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	9.5%	0.5%	11.0%	0.5%	13.0%	0.5%	25.0%	1.0%	44.0%	0.5%	61.0%	0.5%
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	12.0%	0.5%	13.5%	0.5%	15.5%	0.5%	30.0%	0.5%	46.6%	0.5%	63.5%	0.5%

4. A firm must assign bonds and loans for which a credit assessment by a nominated *external credit assessment institution* is not available and for which debtors have not posted collateral by way of a *collateral arrangement* that meets the criteria set out in 3G8 a risk factor *stress_i* depending on the duration *dur_i* of the bond or loan *i* according to the following table:

<u>Duration (dur_i)</u>	<u>$stress_i$</u>
<u>Up to 5</u>	<u>$3\% \cdot dur_i$</u>
<u>More than 5 and up to 10</u>	<u>$15\% + 1.7\% \cdot (dur_i - 5)$</u>
<u>More than 10 and up to 20</u>	<u>$23.5\% + 1.2\% \cdot (dur_i - 10)$</u>
<u>More than 20</u>	<u>$\min(35.5\% + 0.5\% \cdot (dur_i - 20); 1)$</u>

5. Notwithstanding 3D17.4, bonds and loans that are assigned to a *credit quality step* in accordance with 3D18.1 or 3D18.2 or 3D20.1 must be assigned a risk factor $stress_i$ depending on the *credit quality step* and the modified duration dur_i of the bond or loan i assigned in accordance with the table set out in 3D17.3.

6. A firm must assign bonds and loans for which a credit assessment by a nominated *external credit assessment institution* is not available and for which debtors have posted collateral by way of a *collateral arrangement*, where the collateral of those bonds and loans meet the criteria set out in 3G8, a risk factor $stress_i$ according to the following:

- (1) where the risk-adjusted value of collateral is higher than or equal to the value of the bond or loan i , $stress_i$ must be equal to half of the risk factor that would be determined in accordance with 3D17.4;
- (2) where the risk-adjusted value of collateral is lower than the value of the bond or loan i , and where the risk factor determined in accordance with 3D17.4 would result in a value of the bond or loan i that is lower than the risk-adjusted value of the collateral, $stress_i$ must be equal to the average of the following:
 - (a) the risk factor determined in accordance with 3D17.4; and
 - (b) the difference between the value of the bond or loan i and the risk-adjusted value of the collateral, divided by the value of the bond or loan i ; and
- (3) where the risk-adjusted value of collateral is lower than the value of the bond or loan i , and where the risk factor determined in accordance with 3D17.4 would result in a value of the bond or loan i that is higher than or equal to the risk-adjusted value of the collateral, $stress_i$ must be determined in accordance with 3D17.4.

A firm must calculate the risk-adjusted value of the collateral in accordance with 7.34, 3E10 and 3E11.

7. A firm must take into account the impact of the instantaneous decrease in the value of *participations* in *financial institutions* and *credit institutions*, as referred to in Own Funds 3K.6, only on the value of the *participations* that are not deducted from *own funds* pursuant to Own Funds 3K.

3D18 INTERNAL ASSESSMENT OF CREDIT QUALITY STEPS OF BONDS AND LOANS

1. A firm may assign a bond or loan for which a credit assessment by a nominated *external credit assessment institution* is not available and for which debtors have not posted collateral by way of a *collateral arrangement* that meets the criteria set out in 3G8 to *credit quality step 2* if all of the criteria set out in 3D18.3 and 3D18.4 are met with respect to the bond or loan.
2. A firm may assign a bond or loan for which a credit assessment by a nominated *external credit assessment institution* is not available and for which debtors have not posted collateral by way of a *collateral arrangement* that meets the criteria set out in 3G8, other than a bond or loan

assigned to *credit quality step 2* under 3D18.1, to *credit quality step 3* if all of the criteria set out in 3D18.3 and 3D18.5 are met with respect to the bond or loan.

3. The criteria in this rule are as follows:

- (1) the *firm's* own internal credit assessment of the bond or loan meets the requirements listed in 3D19;
- (2) the bond or loan is issued by a company which does not belong to the same corporate group as the *firm*;
- (3) the bond or loan is not issued by a company which is a *UK Solvency II undertaking, an infrastructure entity, a credit institution, an investment firm, a financial institution, an alternative investment fund manager, a UCITS management company, an institution for occupational retirement provision or a non-regulated undertaking carrying out financial activities*;
- (4) no claims on the issuing company of the bond or loan rank senior to the bond or loan, except for the following claims:
 - (a) statutory claims and claims from liquidity facility providers provided that those statutory claims and claims from liquidity facility providers are in aggregate not material relative to the overall senior debt of the issuing company;
 - (b) claims from trustees; and
 - (c) claims from *derivatives counterparties*;
- (5) the bond or loan provides a fixed redemption payment on or before the date of maturity, in addition to regular fixed or floating rate interest payments;
- (6) the contractual terms and conditions of the bond or loan provide for the following:
 - (a) the borrower is obliged to provide audited financial data to the lender at least annually;
 - (b) the borrower is obliged to notify the lender of any events that could materially affect the *credit risk* of the bond or loan;
 - (c) the borrower is not entitled to change the terms and conditions of the bond or loan unilaterally, nor to make other changes to its business that would materially affect the *credit risk* of the bond or loan;
 - (d) the issuer is prohibited from issuing new debt without the prior agreement of the *firm*;
 - (e) what constitutes a default event is defined in a way that is specific to the issue and the issuer; and
 - (f) what is to happen on a change of control; and
- (7) the bond or loan is issued by a company that meets all of the following criteria:
 - (a) the company is a limited liability company;
 - (b) the company has its head office in the *UK*;
 - (c) more than 50% of the annual revenue of the company is denominated in currencies of countries which are members of the *OECD*;
 - (d) the company has operated without any credit event over at least the last 10 years;
 - (e) at least one of the following requirements is fulfilled with respect to each of the last three financial years ending prior to the date on which the *SCR* is being calculated:
 - (i) the annual turnover of the company exceeds GBP 8,800,000;

- (ii) the balance sheet total of the company exceeds GBP 8,800,000; or
 - (iii) the number of staff employed by the company exceeds 50;
 - (f) the sum of the company's annual earnings before interest, tax, depreciation and amortisation ('EBITDA') over the last five financial years is greater than 0;
 - (g) the total debt of the company at the end of the most recent financial year for which figures are available is no higher than 6.5 times the average of the company's annual free cash-flows over the last five financial years;
 - (h) the average of the company's EBITDA over the last five financial years is no lower than 6.5 times the company's interest expense for the most recent financial year for which figures are available; and
 - (i) the net debt of the company at the end of the most recent financial year for which figures are available is no higher than 1.5 times the company's total equity at the end of that financial year.
4. The yield on the bond or loan, and the yield on any bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:
- (1) the average of the yields on the two indices determined in accordance with 3D18.6; and
 - (2) the sum of 0.5% and the yield on the index that meets the requirement in 3D18.6(4).
5. The yield on the bond or loan, and the yield on bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:
- (1) the average of the yields on the two indices determined in accordance with 3D18.7; and
 - (2) the sum of 0.5% and the yield on the index that meets the requirement in 3D18.7(2).
6. For the purposes of 3D18.4, a *firm* must use, for the bond or loan referred to in 3D18.1, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:
- (1) both indices are broad indexes of traded bonds for which an external credit assessment is available;
 - (2) the constituent traded bonds in the two indices are denominated in the same currency as the bond or loan;
 - (3) the constituent traded bonds in the two indices have a similar maturity date as the bond or loan;
 - (4) one of the two indices consists of traded bonds of *credit quality step 2*; and
 - (5) one of the two indices consists of traded bonds of *credit quality step 4*.
7. For the purposes of 3D18.5, a *firm* must use, for the bond or loan referred to in 3D18.2, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:
- (1) both indices meet the requirements set out in 3D18.6(1), (2) and (3);
 - (2) one of the two indices consists of traded bonds of *credit quality step 3*; and
 - (3) one of the two indices consists of traded bonds of *credit quality step 4*.
8. For the purposes of 3D18.4, where the bond or loan referred to in 3D18.1 has features, other than those related to *credit risk* or illiquidity, which materially differ from the features of the

constituent traded bonds in the two indices determined in accordance with 3D18.6, a *firm* must adjust the yield on the bond or loan to reflect those differences.

9. For the purposes of 3D18.5, where the bond or loan referred to in 3D18.2 has features, other than those related to *credit risk* or illiquidity, which materially differ from the features of the constituent traded bonds in the two indices determined in accordance with 3D18.7, a *firm* must adjust the yield on the bond or loan to reflect those differences.

3D19 REQUIREMENTS FOR A FIRM'S OWN INTERNAL CREDIT ASSESSMENT OF BONDS AND LOANS

1. For the purposes of 3D18.3(1), a *firm* must comply with the following requirements in respect of its own internal credit assessment of a bond or loan:
 - (1) the bond or loan is allocated a *credit quality step* on the basis of the *firm's* own internal credit assessment;
 - (2) the *firm's* own internal credit assessment, and the allocation of a *credit quality step* to the bond or loan on the basis of that assessment, are reliable and properly reflect the *spread risk* of the bond or loan *spread risk* sub-module, and, subject to 3D19.2, the *firm* has notified the *PRA* of this in writing before it assigns a bond or loan to a *credit quality step* in accordance with 3D18.1 or 3D18.2;
 - (3) the *firm's* own internal credit assessment takes into account all factors which could have a material effect on the *credit risk* associated with the bond or loan, including the following factors:
 - (a) the competitive position of the issuer;
 - (b) the quality of the issuer's management;
 - (c) the financial policies of the issuer;
 - (d) country risk;
 - (e) the effect of any covenants that are in place;
 - (f) the issuer's financial performance history, including the number of years that it has been operating;
 - (g) the issuer's size and the level of diversity in its activities;
 - (h) the quantitative impact on the issuer's risk profile and financial ratios of its having issued the bond or loan;
 - (i) the issuer's ownership structure; and
 - (j) the complexity of the issuer's business model;
 - (4) the *firm's* own internal credit assessment uses all relevant quantitative and qualitative information;
 - (5) the *firm's* own internal credit assessment, the allocation of a *credit quality step* on the basis of that assessment and the information used to support the own internal credit assessment are documented;
 - (6) the *firm's* own internal credit assessment takes into account the characteristics of comparable assets for which a credit assessment by a nominated *external credit assessment institution* is available;
 - (7) the *firm's* own internal credit assessment takes into account trends in the issuer's financial performance;

- (8) the *firm's* own internal credit assessment is procedurally independent from the decision to underwrite; and
 - (9) the *firm* regularly reviews its own internal credit assessment.
2. Where a *firm* assigned a bond or loan to a *credit quality step* in accordance with Article 176a(1) or (2) of Commission Delegated Regulation (EU) 2015/35 immediately before 31 December 2024 and from 31 December 2024 assigns the bond or loan to a *credit quality step* in accordance with 3D18.1 or 3D18.2, the *firm* must notify the *PRA* in writing by 31 January 2025.

3D20 ASSESSMENT OF CREDIT QUALITY STEPS OF BONDS AND LOANS BASED ON AN APPROVED INTERNAL MODEL

1. This Chapter applies in the following circumstances:
- (1) a *firm* has concluded an agreement ('co-investment agreement') to invest in bonds and loans jointly with another entity;
 - (2) that other entity ('the co-investor') is one or other of the following:
 - (a) an *institution* which uses the Internal Ratings Based Approach referred to in Article 143(1) of the *CRR*; or
 - (b) a *UK Solvency II undertaking* which uses an *internal model* to calculate its *SCR*;
 - (3) pursuant to the co-investment agreement, the *firm* and the co-investor invest jointly in bonds and loans for which a credit assessment by a nominated *external credit assessment institution* is not available and for which debtors have not posted collateral by way of a *collateral arrangement* that meets the criteria set out in 3G8; and
 - (4) the co-investment agreement provides that the co-investor shares with the *firm* the probabilities of default produced by its Internal Ratings Based Approach or, as applicable, the *credit quality steps* produced by its *internal model* for the bonds or loans referred to in (3) for the purpose of using that information for the calculation of the *SCR* of the *firm*.
2. If all of the criteria set out in 3D20.3 to 3D20.6 are met, a *firm* must assign the bonds and loans referred to in 3D20.1(3) to *credit quality steps* determined as follows:
- (1) in a case where the co-investor falls within 3D20.1(2)(a), *credit quality steps* must be determined on the basis of the most recent probabilities of default that the Internal Ratings Based Approach has produced; and
 - (2) in a case where the co-investor falls within 3D20.1(2)(b), *credit quality steps* must be the *credit quality steps* produced by the *internal model*.
3. The criteria in this rule are as follows:
- (1) the issuer of each bond or loan does not belong to the same corporate group as the *firm*;
 - (2) the issuer is not a *UK Solvency II undertaking*, an *infrastructure entity*, a *credit institution*, an *investment firm*, a *financial institution*, an *alternative investment fund manager*, a *UCITS management company*, an *institution for occupational retirement provision* or a *non-regulated undertaking carrying out financial activities*;
 - (3) the issuer has its head office in the *UK*;
 - (4) more than 50% of the issuer's annual revenue is denominated in currencies of countries which are members of the *OECD*; and
 - (5) at least one of the following requirements is met for each of the last three financial years ending prior to the date on which the *SCR* is being calculated:

- (a) the annual turnover of the issuer exceeds GBP 8,800,000;
- (b) the balance sheet total of the issuer exceeds GBP 8,800,000; or
- (c) the number of staff employed by the issuer exceeds 50.

4. The criteria in this rule are as follows:

- (1) the co-investment agreement defines the types of bonds and loans to be underwritten, and the applicable assessment criteria;
- (2) the co-investor provides the *firm* with sufficient details of the underwriting process, including the criteria used, the organisational structure of the co-investor and the controls conducted by the co-investor;
- (3) the co-investor provides the *firm* with data on all applications for bonds and loans to be underwritten;
- (4) the co-investor provides the *firm* with details of all decisions to approve or reject applications for bonds and loans to be underwritten;
- (5) the co-investor retains an exposure of at least 20% of the nominal value of each bond and loan;
- (6) the underwriting process is the same as the underwriting process followed by the co-investor for its other investments in comparable bonds and loans;
- (7) the *firm* invests in all bonds and loans of the types referred to in (1) for which the co-investor decides to approve the bond or loan application; and
- (8) the co-investor provides the *firm* with information that allows the *firm* to understand the Internal Ratings Based Approach or, as applicable, *internal model* and its limitations, as well as its adequacy and appropriateness, in particular:
 - (a) a description of the Internal Ratings Based Approach or, as applicable, *internal model*, including the inputs and risk factors, the quantification of risk parameters and the underlying methods, and the general methodology applied;
 - (b) a description of the scope of the use of the Internal Ratings Based Approach or, as applicable, *internal model*; and
 - (c) a description of the model validation process and of other processes which allow the model's performance to be monitored, the appropriateness of its specification to be reviewed over time, and the results of the Internal Ratings Based Approach or, as applicable, *internal model* to be tested against experience.

5. In a case where the co-investor falls within 3D20.1(2)(a):

- (1) the *firm* clearly documents to which *credit quality step* the probability of default produced by the *institution's* Internal Ratings Based Approach corresponds;
- (2) the mapping of probabilities of default to *credit quality steps* carried out by the *firm* ensures that, for the bond or loan in question, the resulting level of capital requirement for the *spread risk* sub-module is appropriate;
- (3) the mapping is based on Table 1 in Annex I to Commission Implementing Regulation (EU) 2016/1799;
- (4) adjustments are made in a prudent manner to the probabilities of default before the mapping is carried out, taking into account the qualitative factors set out in Article 7 of Commission Implementing Regulation (EU) 2016/1799; and
- (5) an adjustment to the probabilities of default is made in either of the following situations:

- (a) the time horizon covered by the Internal Ratings Based Approach deviates significantly from the 3-year time horizon set out in Article 4(2) of Commission Implementing Regulation (EU) 2016/1799; and
- (b) the definition of default used in the Internal Ratings Based Approach deviates significantly from the one set out in Article 4(4) of that Commission Implementing Regulation.
6. In a case where the co-investor falls within 3D20.1(2)(b), its *internal model* ensures that, for the bond or loan in question, the resulting level of capital requirement for the *spread risk* sub-module is appropriate.

3D21 SPREAD RISK ON SECURITISATION POSITIONS: CALCULATION OF THE CAPITAL REQUIREMENT

1. A firm must calculate the capital requirement $SCR_{securitisation}$ for *spread risk on securitisation positions* as equal to the loss in its *basic own funds* that would result from an instantaneous relative decrease of $stress_i$ in the value of each *securitisation position i* .
2. The risk factor $stress_i$ must be calculated by reference to the modified duration denominated in years (dur_i), and dur_i must not be lower than 1 year.
3. In respect of *senior securitisation positions in STS securitisations* which fulfil the requirements set out in Article 243 of the *CRR* and for which a credit assessment by a nominated *external credit assessment institution* is available, a firm must assign a risk factor $stress_i$ depending on the *credit quality step* and the modified duration of the *securitisation position i* , as set out in the following table:

<u>Credit quality step</u>		<u>0</u>		<u>1</u>		<u>2</u>		<u>3</u>		<u>4</u>		<u>5 and 6</u>	
<u>Duration</u>	<u>$stress_i$</u>	<u>a_i</u>	<u>b_i</u>	<u>a_i</u>	<u>b_i</u>	<u>a_i</u>	<u>b_i</u>	<u>a_i</u>	<u>b_i</u>	<u>a_i</u>	<u>b_i</u>	<u>a_i</u>	<u>b_i</u>
<u>(dur_i)</u>													
<u>Up to 5</u>	<u>$b_i \cdot dur_i$</u>	<u>=</u>	<u>1.0%</u>	<u>=</u>	<u>1.2%</u>	<u>=</u>	<u>1.6%</u>	<u>=</u>	<u>2.8%</u>	<u>=</u>	<u>5.6%</u>	<u>=</u>	<u>9.4%</u>
<u>More than 5 and up to 10</u>	<u>$a_i + b_i \cdot (dur_i - 5)$</u>	<u>5.0%</u>	<u>0.6%</u>	<u>6.0%</u>	<u>0.7%</u>	<u>8.0%</u>	<u>0.8%</u>	<u>14.0%</u>	<u>1.7%</u>	<u>28.0%</u>	<u>3.1%</u>	<u>47.0%</u>	<u>5.3%</u>
<u>More than 10 and up to 15</u>	<u>$a_i + b_i \cdot (dur_i - 10)$</u>	<u>8.0%</u>	<u>0.6%</u>	<u>9.5%</u>	<u>0.5%</u>	<u>12.0%</u>	<u>0.6%</u>	<u>22.5%</u>	<u>1.1%</u>	<u>43.5%</u>	<u>2.2%</u>	<u>73.5%</u>	<u>0.6%</u>
<u>More than 15 and up to 20</u>	<u>$a_i + b_i \cdot (dur_i - 15)$</u>	<u>11.0%</u>	<u>0.6%</u>	<u>12.0%</u>	<u>0.5%</u>	<u>15.0%</u>	<u>0.6%</u>	<u>28.0%</u>	<u>1.1%</u>	<u>54.5%</u>	<u>0.6%</u>	<u>76.5%</u>	<u>0.6%</u>
<u>More than 20</u>	<u>$\min[a_i + b_i \cdot (dur_i - 20); 1]$</u>	<u>14.0%</u>	<u>0.6%</u>	<u>14.5%</u>	<u>0.5%</u>	<u>18.0%</u>	<u>0.6%</u>	<u>33.5%</u>	<u>0.6%</u>	<u>57.5%</u>	<u>0.6%</u>	<u>79.5%</u>	<u>0.6%</u>

4. In respect of *securitisation positions in STS securitisations* that are not *senior securitisation positions*, which fulfil the requirements set out in Article 243 of the *CRR* and for which a credit assessment by a nominated *external credit assessment institution* is available, a firm must assign a risk factor $stress_i$ depending on the *credit quality step* and the modified duration of the *securitisation position i* , as set out in the following table:

Credit quality step		0		1		2		3		4		5 and 6	
Duration	stress_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
(dur_i)													
Up to 5	$\min[b_i \cdot dur_i; 1]$	=	2.8%	=	3.4%	=	4.6%	=	7.9%	=	15.8%	=	26.7%
More than 5 and up to 10	$\min[a_i + b_i \cdot (dur_i - 5); 1]$	14.0%	1.6%	17.0%	1.9%	23.0%	2.3%	39.5%	4.7%	79.0%	8.8%	100.0%	0.0%
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	22.0%	1.6%	26.5%	1.5%	34.5%	1.6%	63.0%	3.2%	100.0%	0.0%	100.0%	0.0%
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	30.0%	1.6%	34.0%	1.5%	42.5%	1.6%	79.0%	3.2%	100.0%	0.0%	100.0%	0.0%
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	38.0%	1.6%	41.5%	1.5%	50.5%	1.6%	95.0%	1.6%	100.0%	0.0%	100.0%	0.0%

5. In respect of *senior securitisation positions* in *STS securitisations* which fulfil the criteria set out in Article 243 of the *CRR* and for which no credit assessment by a nominated *external credit assessment institution* is available, a *firm* must assign a risk factor *stress_i* depending on the modified duration of the *securitisation position i*, as set out in the following table:

Duration	stress_i	a_i	b_i
(dur_i)			
Up to 5	$b_i \cdot dur_i$	=	4.6%
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	23%	2.5%
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	35.5%	1.8%
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	44.5%	0.5%
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	47%	0.5%

6. In respect of *securitisation positions* in *STS securitisations* that are not *senior securitisation positions*, which fulfil the criteria set out in Article 243 of the *CRR* and for which no credit assessment by a nominated *external credit assessment institution* is available, a *firm* must assign a risk factor *stress_i* equivalent to *credit quality step 5* and depending on the modified duration of the exposure, as set out in the table in 3D21.3.
7. In respect of *resecuritisation positions* for which a credit assessment by a nominated *external credit assessment institution* is available, a *firm* must assign a risk factor *stress_i* in accordance with the following formula:

$$stress_i = \min(b_i \cdot dur_i; 1)$$

where the value of *b_i* depends on the *credit quality step* of *resecuritisation position i*, as set out in the following table:

Credit quality step	0	1	2	3	4	5	6
b_i	33%	40%	51%	91%	100%	100%	100%

8. In respect of *securitisation positions* not covered by 3D21.3 to 3D21.7, for which a credit assessment by a nominated *external credit assessment institution* is available, a *firm* must assign a risk factor *stress_i* in accordance with the following formula:

$$stress_i = \min(b_i \cdot dur_i; 1)$$

where the value of *b_i* depends on the *credit quality step* of *securitisation position i*, as set out in the following table:

<u>Credit quality step</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>b_i</u>	<u>12.5%</u>	<u>13.4%</u>	<u>16.6%</u>	<u>19.7%</u>	<u>82%</u>	<u>100%</u>	<u>100%</u>

9. In respect of *securitisation positions* not covered by 3D21.3 to 3D21.8, a *firm* must assign a risk factor *stress_i* of 100%.

3D22 SPREAD RISK ON SECURITISATION POSITIONS: TRANSITIONAL PROVISIONS

1. Notwithstanding 3D21.3, in respect of *securitisations* issued before 1 January 2019 that qualify as type 1 *securitisations* in accordance with Article 177(2) of Commission Delegated Regulation (EU) 2015/35 in the version that was in force on 31 December 2018, a *firm* must (subject to 3D22.2) assign a risk factor *stress_i* in accordance with 3D21.3 even where those *securitisations* are not *STS securitisations* which fulfil the requirements set out in Article 243 of the *CRR*.
2. 3D22.1 applies only in circumstances where no new underlying exposures were added or substituted after 31 December 2018.
3. Notwithstanding 3D21.3, in respect of *securitisations* issued before 18 January 2015 that qualify as type 1 *securitisations* in accordance with Article 177(4) in the version of Commission Delegated Regulation (EU) 2015/35 that was in force on 31 December 2018, a *firm* must assign a risk factor *stress_i* in accordance with Articles 177 and 178 in the version in force on 31 December 2018.
4. Notwithstanding 3D21.3, in respect of *securitisations* issued before 1 January 2019 that qualify as type 1 *securitisations* in accordance with Article 177(5) in the version of Commission Delegated Regulation (EU) 2015/35 that was in force on 31 December 2018, a *firm* must, until 31 December 2025, assign a risk factor *stress_i* in accordance with Articles 177 and 178 in the version in force on 31 December 2018.
5. For the purposes of 3D22.3 and 3D22.4, Article 177 (in the version of Commission Delegated Regulation (EU) 2015/35 which was in force on 31 December 2018) continues to have effect notwithstanding its deletion by Article 1(3) of Commission Delegated Regulation (EU) 2018/1221, and has effect for those purposes with the following modifications:
 - (1) paragraph 2 is to be read as if:
 - (a) a reference to Regulation (EU) No 575/2013 were a reference to the version of that Regulation which was in force on 31 December 2018;
 - (b) in point (b) 'the EEA or' were omitted;
 - (c) in point (h)(i):
 - (i) for 'national law of the Member State where the loans were originated' there were substituted 'loans were originated in the *UK* and the law of the *UK*';
 - (ii) ', and that Member State has notified this law to the Commission and EIOPA' were omitted;
 - (d) point (h)(ii) were omitted;

- (e) in point (h)(iv) for the words from ‘agricultural’ to ‘tracked’ there were substituted ‘tractors as defined in point (8) of Article 3 of Regulation (EU) No 167/2013 of the European Parliament and of the Council (as it had effect immediately before *IP completion day*), powered two-wheelers or powered tricycles as defined in points (68) and (69) of Article 3 of Regulation (EU) No 168/2013 of the European Parliament and of the Council (as it had effect immediately before *IP completion day*) or tracked’;
- (f) in points (r) and (s) for the words ‘countries that are not members of the Union’, both times it occurs, substitute ‘a country other than the UK’; and
- (g) in point (t):
- (i) the words from ‘and discloses information’ to ‘stress tests’ were omitted;
- (ii) for ‘Union’, in both places it occurs, there were substituted ‘UK’;
- (2) paragraph 4 is to be read as if for ‘the entry into force of this Regulation’ there were substituted ‘18 January 2015’; and
- (3) paragraph 5 is to be read as if, in points (a) and (c), for ‘the date of entry into force of this Regulation’ there were substituted ‘18 January 2015’.

3D23 SPREAD RISK ON CREDIT DERIVATIVES

1. A firm must calculate the capital requirement SCR_{cd} for *spread risk* on credit *derivatives* other than those referred to in 3D23.4 as equal to the higher of the following capital requirements:
- (1) the loss in its *basic own funds* that would result from an instantaneous increase in absolute terms of the credit spread of the instruments underlying the credit *derivatives*; and
- (2) the loss in its *basic own funds* that would result from an instantaneous relative decrease of the credit spread of the instruments underlying the credit *derivatives* by 75%.
2. For the purposes of 3D23.1(1), a firm must calculate the instantaneous increase of the credit spread of the instruments underlying the credit *derivatives* for which a credit assessment by a nominated *external credit assessment institution* is available according to the following table:

<u>Credit quality step</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>Instantaneous increase in spread (in percentage points)</u>	<u>1.3</u>	<u>1.5</u>	<u>2.6</u>	<u>4.5</u>	<u>8.4</u>	<u>16.2</u>	<u>16.2</u>

3. For the purposes of 3D23.1(1), a firm must calculate the instantaneous increase of the credit spread of the instruments underlying the credit *derivatives* for which a credit assessment by a nominated *external credit assessment institution* is not available as 5 percentage points.
4. A firm must not subject credit *derivatives* which are part of the firm’s risk mitigation policy to a capital requirement for *spread risk*, provided that the firm holds either the instruments underlying the credit *derivative* or another exposure with respect to which the *basis risk* between that exposure and the instruments underlying the credit *derivative* is not material in any circumstances.
5. Where the higher of the capital requirements referred to in 3D23.1(1) and (2) and the higher of the corresponding capital requirements calculated in accordance with 6.3(2) are not based on the same scenario, the capital requirement for *spread risk* on credit *derivatives* must be the capital requirement referred to in 3D23.1 for which the underlying scenario results in the highest corresponding capital requirement calculated in accordance with 6.3(2).

3D24 SPECIFIC EXPOSURES

1. In respect of exposures in the form of *covered bonds* which have been assigned to *credit quality step* 0 or 1, a *firm* must assign a risk factor *stress_i* according to the following table:

<u>Credit quality step Duration (<i>dur_i</i>)</u>	<u>0</u>	<u>1</u>
<u>Up to 5</u>	$0.7\% \cdot dur_i$	$0.9\% \cdot dur_i$
<u>More than 5 years</u>	$\min (3.5\% + 0.5\% \cdot (dur_i - 5); 1)$	$\min (4.5\% + 0.5\% \cdot (dur_i - 5); 1)$

2. A *firm* must assign to exposures in the form of bonds and loans to the following a risk factor *stress_i* of 0%:
- (1) *UK* central government and *Bank of England* denominated and funded in pounds sterling;
 - (2) multilateral development banks referred to in paragraph 2 of Article 117 of the *CRR*; and
 - (3) international organisations referred to in Article 118 of the *CRR*;
3. A *firm* must assign a risk factor *stress_i* of 0% to exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by one of the *counterparties* mentioned in 3D24.2(1) to (3), where the guarantee meets the requirements set out in 3G9.
4. For the purposes of 3D24.2(1), a *firm* must treat exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by bodies listed in 3D1, where the guarantee meets the requirements set out in 3G9, as exposures to the central government.
5. In respect of exposures in the form of bonds and loans to central governments and *central banks* other than those referred to in 3D24.2(1), denominated and funded in the domestic currency of that central government and *central bank*, and for which a credit assessment by a nominated *external credit assessment institution* is available, a *firm* must be assign a risk factor *stress_i* depending on the *credit quality step* and the duration of the exposure according to the following table:

<u>Credit quality step</u>		<u>0 and 1</u>		<u>2</u>		<u>3</u>		<u>4</u>		<u>5 and 6</u>	
<u>Duration (<i>dur_i</i>)</u>	<u><i>stress_i</i></u>	<u><i>a_i</i></u>	<u><i>b_i</i></u>	<u><i>a_i</i></u>	<u><i>b_i</i></u>	<u><i>a_i</i></u>	<u><i>b_i</i></u>	<u><i>a_i</i></u>	<u><i>b_i</i></u>	<u><i>a_i</i></u>	<u><i>b_i</i></u>
<u>Up to 5</u>	$b_i \cdot dur_i$	=	0.0%	=	1.1%	=	1.4%	=	2.5%	=	4.5%
<u>More than 5 and up to 10</u>	$a_i + b_i \cdot (dur_i - 5)$	0.0%	0.0%	5.5%	0.6%	7.0%	0.7%	12.5%	1.5%	22.5%	2.5%
<u>More than 10 and up to 15</u>	$a_i + b_i \cdot (dur_i - 10)$	0.0%	0.0%	8.4%	0.5%	10.5%	0.5%	20.0%	1.0%	35.0%	1.8%
<u>More than 15 and up to 20</u>	$a_i + b_i \cdot (dur_i - 15)$	0.0%	0.0%	10.9%	0.5%	13.0%	0.5%	25.0%	1.0%	44.0%	0.5%

<u>More than 20</u>	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	<u>0.0%</u>	<u>0.0%</u>	<u>13.4%</u>	<u>0.5%</u>	<u>15.5%</u>	<u>0.5%</u>	<u>30.0%</u>	<u>0.5%</u>	<u>46.5%</u>	<u>0.5%</u>
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6. In respect of exposures in the form of bonds and loans to the *UK's* regional governments and local authorities not listed in 3D1, a *firm* must assign a risk factor *stress_i* from the table in 3D24.5 corresponding to *credit quality step 2*.
7. In respect of exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by the *UK's* regional government or local authority that are not listed in 3D1, where the guarantee meets the requirements set out in 3G9, must be assigned a risk factor *stress_i* from the table in 3D24.5 corresponding to *credit quality step 2*.
8. In respect of exposures in the form of bonds and loans to a *UK Solvency II undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available and where this *UK Solvency II undertaking* meets its *MCR*, a *firm* must assign a risk factor *stress_i* from the table in 3D17.3 depending on the *UK Solvency II undertaking's* solvency ratio, using the following mapping between solvency ratios and *credit quality steps*:

<u>Solvency ratio</u>	<u>196%</u>	<u>175%</u>	<u>122%</u>	<u>95%</u>	<u>75%</u>	<u>75%</u>
<u>Credit quality step</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>

9. Where the solvency ratio falls in between the solvency ratios set out in the table above, the value of *stress_i* must be linearly interpolated from the closest values of *stress_i* corresponding to the closest solvency ratios set out in the table above, provided that:
- (1) where the solvency ratio is lower than 75%, *stress_i* must be equal to the factor corresponding to the *credit quality steps* 5 and 6; and
 - (2) where the solvency ratio is higher than 196%, *stress_i* must be the same as the factor corresponding to the *credit quality step 1*.
10. For the purposes of 3D24.8 and 3D24.9, 'solvency ratio' denotes the ratio of the *eligible own funds* to cover the *SCR* and the *SCR*, using the latest available values.
11. A *firm* must assign to exposures in the form of bonds and loans to a *UK Solvency II undertaking* which does not meet its *MCR* a risk factor *stress_i* according to the following table:

<u>Duration (<i>dur_i</i>)</u>	<u>risk factor <i>stress_i</i></u>
<u>Up to 5</u>	<u>$7.5\% \cdot dur_i$</u>
<u>More than 5 and up to 10</u>	<u>$37.50\% + 4.20\% \cdot (dur_i - 5)$</u>
<u>More than 10 and up to 15</u>	<u>$58.50\% + 0.50\% \cdot (dur_i - 10)$</u>
<u>More than 15 and up to 20</u>	<u>$61\% + 0.50\% \cdot (dur_i - 15)$</u>
<u>More than 20</u>	<u>$\min(63.5\% + 0.5\% \cdot (dur_i - 20); 1)$</u>

12. 3D24.8 to 3D24.11 only applies as of the first date of public disclosure, by the *UK Solvency II undertaking* corresponding to the exposure, of the *SFCR*, and before that date:
- (1) if a credit assessment by a nominated *external credit assessment institution* is available for the exposures, 3D17 applies;

- (2) in all other cases, a firm must assign to the exposures the same risk factor as the ones that would result from the application of 3D24.8 to 3D24.10 to exposures to a *UK Solvency II undertaking* whose solvency ratio is 100%.
13. In respect of exposures in the form of bonds and loans to a *third country insurance undertaking* or a *third country reinsurance undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available, situated in a *third country* which is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation, and which complies with the solvency requirements of that *third country*, a firm must assign the same risk factor as the ones that would result from the application of 3D24.8 to 3D24.10 to exposures to a *UK Solvency II undertaking* whose solvency ratio is 100%.
14. In respect of exposures in the form of bonds and loans to *credit institutions and financial institutions* which comply with the solvency requirements set out in the *PRA Rulebook*, the *CRR* or technical standards as amended from time to time, for which a credit assessment by a nominated *external credit assessment institution* is not available, a firm must assign the same risk factor as the ones that would result from the application of 3D24.8 to 3D24.10 to exposures to a *UK Solvency II undertaking* whose solvency ratio is 100%.
15. A firm must calculate the capital requirement for *spread risk* on credit *derivatives* where the underlying financial instrument is a bond or a loan to any exposure listed in 3D24.2 as nil.
16. In respect of exposures in the form of bonds and loans that fulfil the criteria set out in 3D24.17, a firm must assign a risk factor *stress_i* depending on the *credit quality step* and the duration of the exposure, according to the following table:

<i>Credit quality step</i>		0		1		2		3	
<i>Duration (dur_i)</i>	<i>stress_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>
Up to 5	$b_i \cdot dur_i$	=	0.64%	=	0.78%	=	1.0%	=	1.67%
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	3.2%	0.36%	3.9%	0.43%	5.0%	0.5%	8.35%	1.0%
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	5.0%	0.36%	6.05%	0.36%	7.5%	0.36%	13.35%	0.67%
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	6.8%	0.36%	7.85%	0.36%	9.3%	0.36%	16.7%	0.67%
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	8.6%	0.36%	9.65%	0.36%	11.1%	0.36%	20.05%	0.36%

17. The criteria for exposures that are assigned a risk factor in accordance with 3D24.16 are:
- (1) the exposure relates to a *qualifying infrastructure investment* that meets the criteria set out in 3D2;
 - (2) the exposure is not an asset that fulfils the following conditions:
 - (a) it is assigned to a *matching adjustment portfolio*; and
 - (b) it has been assigned a *credit quality step* between 0 and 2;
 - (3) a credit assessment by a nominated *external credit assessment institution* is available for the exposure; and

- (4) the exposure has been assigned a *credit quality step* between 0 and 3.
18. In respect of exposures in the form of bonds and loans that meet the criteria set out in 3D24.17(1) and (2), but do not meet the criteria set out in 3D24.17(3), a *firm* must assign a risk factor *stress_i* equivalent to *credit quality step* 3 and the duration of the exposure in accordance with the table set out in 3D24.16.
19. In respect of exposures in the form of bonds and loans that fulfil the criteria set out in 3D24.20, a *firm* must assign a risk factor *stress_i* depending on the *credit quality step* and the duration of the exposure according to the following table:

<i>Credit quality step</i>		0		1		2		3	
<i>Duration (dur_i)</i>	<i>stress_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>	<i>a_i</i>	<i>b_i</i>
Up to 5	$b_i \cdot dur_i$	=	0.68%	=	0.83%	=	1.05%	=	1.88%
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	3.38%	0.38%	4.13%	0.45%	5.25%	0.53%	9.38%	1.13%
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	5.25%	0.38%	6.38%	0.38%	7.88%	0.38%	15.0%	0.75%
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	7.13%	0.38%	8.25%	0.38%	9.75%	0.38%	18.75%	0.75%
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	9.0%	0.38%	10.13%	0.38%	11.63%	0.38%	22.50%	0.38%

20. The criteria for exposures that are assigned a risk factor in accordance with 3D24.19 are:
- (1) the exposure relates to a *qualifying infrastructure corporate investment* that meets the criteria set out in 3D3;
 - (2) the exposure is not an asset that fulfils the following conditions:
 - (a) it is assigned to a *matching adjustment portfolio*; and
 - (b) it has been assigned a *credit quality step* between 0 and 2;
 - (3) a credit assessment by a nominated *external credit assessment institution* is available for the *infrastructure entity*; and
 - (4) the exposure has been assigned a *credit quality step* between 0 and 3.
21. In respect of exposures in the form of bonds and loans that meet the criteria set out in 3D24.20(1) and (2), but do not meet the criteria set out in 3D24.20(3), a *firm* must assign a risk factor *stress_i* equivalent to *credit quality step* 3 and the duration of the exposure in accordance with the table set out in 3D24.19.

3D25 APPLICATION OF THE SPREAD RISK SCENARIOS TO MATCHING ADJUSTMENT PORTFOLIOS

1. Where a *firm* applies the *matching adjustment*, it must carry out the scenario-based calculation for *spread risk* as follows:
 - (1) the *relevant portfolio of assets* must be subject to the instantaneous decrease in value for *spread risk* set out in 3D17, 3D21 and 3D24; and
 - (2) the *firm* must recalculate the *technical provisions* to take into account the impact on the

amount of the *matching adjustment* of the instantaneous decrease in value of the *relevant portfolio of assets* and, in particular, the *firm* must increase the fundamental spread calculated in respect of *assigned assets* by an absolute amount that is calculated as the product of the following:

- (a) the absolute increase in spread that, multiplied by the modified duration of the relevant asset, would result in the relevant risk factor *stress*, referred to in 3D17, 3D21 and 3D24; and
- (b) a reduction factor, depending on the credit quality as set out in the following table:

<u>Credit quality step</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>Reduction factor</u>	<u>45%</u>	<u>50%</u>	<u>60%</u>	<u>75%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

- 2. In respect of the *assigned assets* for which no credit assessment by a nominated *external credit assessment institution* is available, and for qualifying *infrastructure assets* and for qualifying infrastructure corporate assets that have been assigned *credit quality step 3*, a *firm* must apply a reduction factor of 100%.

MARKET RISK CONCENTRATIONS SUB-MODULE

3D26 SINGLE NAME EXPOSURE

1. A *firm* must calculate the capital requirement for *market risk concentrations* on the basis of single name exposures. For this purpose:
 - (1) exposures to *undertakings* which belong to the same corporate *group* must be treated as a single name exposure; and
 - (2) immovable properties which are located in the same building must be treated as a single immovable property.
2. A *firm* must calculate the exposure at default to a *counterparty* as the sum of its exposures to this *counterparty*.
3. A *firm* must calculate the exposure at default to a single name exposure as the sum of the exposures at default to all *counterparties* that belong to the single name exposure.
4. A *firm* must calculate the weighted average *credit quality step* on a single name exposure as equal to the rounded-up average of the *credit quality steps* of all exposures to all *counterparties* that belong to the single name exposure, weighted by the value of each exposure.
5. For the purposes of 3D26.4, a *firm* must assign to exposures for which a credit assessment by a nominated *external credit assessment institution* is available a *credit quality step* in accordance with 1A to 1C.
6. For the purposes of 3D26.4, in respect of exposures to a *UK Solvency II undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available and where the *UK Solvency II undertaking* meets its *MCR*, a *firm* must assign a *credit quality step* depending on the *UK Solvency II undertaking's* solvency ratio using the following mapping between solvency ratios and *credit quality steps*:

<u>Solvency Ratio</u>	<u>196%</u>	<u>175%</u>	<u>122%</u>	<u>100%</u>	<u>95%</u>
<u>Credit quality step</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>3.82</u>	<u>5</u>

7. Where the solvency ratio falls in between the solvency ratios set out in the table above, the *credit quality step* must be linearly interpolated from the closest *credit quality steps* corresponding to the closest solvency ratios set out in the table above, provided that:
- (1) where the solvency ratio is lower than 95%, the *credit quality step* must be 5; and
 - (2) where the solvency ratio is higher than 196%, the *credit quality step* must be 1.
8. For the purposes of 3D26.6 to 3D26.7, 'solvency ratio' denotes the ratio of the *eligible own funds* to cover the SCR and the SCR, using the latest available values.
9. For the purposes of 3D26.4, a *firm* must assign *credit quality step* 6 to exposures to a *UK Solvency II undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available and where the *UK Solvency II undertaking* does not meet its MCR.
10. 3D26.6 to 3D26.9 only applies as of the first date of public disclosure, by the *UK Solvency II undertaking* corresponding to the exposure, of the SFCR and before that date, a *firm* must assign the exposures to *credit quality step* 3.82.
11. For the purposes of 3D26.4, a *firm* must assign exposures to a *third country insurance undertaking* or a *third country reinsurance undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available, situated in a *third country* which is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the IRPR regulations in respect of the insurance group capital requirements calculation, and which complies with the solvency requirements of that *third country*, to *credit quality step* 3.82.
12. For the purposes of 3D26.4, a *firm* must assign exposures to *credit institutions* and *financial institutions*, which comply with the solvency requirements set out in the PRA Rulebook, the CRR or technical standards as amended from time to time, for which a credit assessment by a nominated *external credit assessment institution* is not available, to *credit quality step* 3.82.
13. For the purpose of 3D26.4, *firm* must assign exposures other than those to which a *credit quality step* is assigned under 3D26.5 to 3D26.12 to *credit quality step* 5.

3D27 CALCULATION OF THE CAPITAL REQUIREMENT FOR MARKET RISK

CONCENTRATIONS

1. A *firm* must calculate the capital requirement for *market risk concentrations* in accordance with the following formula:
- $$SCR_{conc} = \sqrt{\sum_i Conc_i^2}$$
- where:
- (a) the sum covers all single name exposures i ; and
 - (b) $Conc_i$ denotes the capital requirement for *market risk concentrations* on a single name exposure i .
2. For each single name exposure i , a *firm* must calculate the capital requirement for *market risk concentrations* $Conc_i$ as equal to the loss in its *basic own funds* that would result from an instantaneous decrease in the value of the assets corresponding to the single name exposure i calculated in accordance with the following formula:
- $$XS_i \cdot g_i$$
- where:
- (a) XS_i is the excess exposure referred to in 3D28; and

(b) g_i is the risk factor for *market risk concentrations* referred to in 3D30 and 3D31;

3D28 EXCESS EXPOSURE

1. A firm must calculate the excess exposure on a single name exposure i in accordance with the following formula:

$$XS_i = \text{Max}(0; E_i - CT_i \cdot \text{Assets})$$

where:

- (a) E_i denotes the exposure at default to single name exposure i that is included in the calculation base of the *market risk concentrations* sub-module;
- (b) *Assets* denotes the calculation base of the *market risk concentrations* sub-module; and
- (c) CT_i denotes the relative excess exposure threshold referred to in 3D29.
2. The calculation base of the *market risk concentrations* sub-module *Assets* must be equal to the value of all assets held by the firm, excluding the following:
- (1) assets held in respect of *long-term insurance contracts* where the investment risk is fully borne by the *policyholders*;
- (2) exposures to a *counterparty* which belongs to the same *group* as the firm, provided that all of the following requirements are met:
- (a) the *counterparty* is a *UK Solvency II undertaking*, an *insurance holding company*, a *mixed financial holding company* or an *ancillary services undertaking*;
- (b) the *counterparty* is fully consolidated in accordance with Group Supervision 11.1A(1);
- (c) the *counterparty* is subject to the same risk evaluation, measurement and control procedures as the firm;
- (d) the *counterparty* is established in the UK; and
- (e) there is no current or foreseen material practical or legal impediment to the prompt transfer of *own funds* or repayment of liabilities from the *counterparty* to the firm;
- (3) the value of the *participations* as referred to in Own Funds 3K.6 in *financial institutions* and *credit institutions* that is deducted from *own funds* pursuant to Own Funds 3K;
- (4) exposures included in the scope of the *counterparty* default risk module;
- (5) deferred tax assets; and
- (6) intangible assets.
3. A firm must reduce the exposure at default on a single name exposure i by the amount of the exposure at default to *counterparties* belonging to that single name exposure and for which the risk factor for *market risk concentrations* referred to in 3D30 and 3D31 is 0%.

3D29 RELATIVE EXCESS EXPOSURE THRESHOLDS

1. In respect of each single name exposure i , a firm must assign, in accordance with the following table, a relative excess exposure threshold depending on the weighted average *credit quality step* of the single name exposure i , calculated in accordance with 3D26.4.

Weighted average <i>credit quality step</i> of single name exposure i	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
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Relative excess exposure threshold CT_i	<u>3%</u>	<u>3%</u>	<u>3%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>	<u>1.5%</u>
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3D30 RISK FACTOR FOR MARKET RISK CONCENTRATIONS

1. In respect of each single name exposure i , a firm must assign, in accordance with the following table, a risk factor g_i for *market risk concentrations* depending on the weighted average *credit quality step* of the single name exposure i , calculated in accordance with 3D26.4.

<u>Weighted average credit quality step of single name exposure i</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
Risk factor g_i	<u>12%</u>	<u>12%</u>	<u>21%</u>	<u>27%</u>	<u>73%</u>	<u>73%</u>	<u>73%</u>

3D31 SPECIFIC EXPOSURES

- A firm must assign to exposures in the form of *covered bonds* a relative excess exposure threshold CT_i of 15%, provided that the corresponding exposures in the form of *covered bonds* have been assigned to *credit quality step* 0 or 1 and must treat exposures in the form of *covered bonds* as single name exposures, regardless of other exposures to the same *counterparty* as the issuer of the *covered bonds*, which constitute a distinct single name exposure.
- A firm must assign to exposures to a single immovable property a relative excess exposure threshold CT_i of 10% and a risk factor g_i for *market risk concentrations* of 12%.
- A firm must assign to the following exposures a risk factor g_i for *market risk concentrations* of 0%:
 - the UK central government and Bank of England denominated and funded in pounds sterling;
 - multilateral development banks referred to in Article 117(2) of the CRR; and
 - international organisations referred to in Article 118 of the CRR.
- In respect of exposures that are fully, unconditionally and irrevocably guaranteed by one of the *counterparties* mentioned in 3D31.3(1) to (3), where the guarantee meets the requirements set out in 3G9, a firm must also assign a risk factor g_i for *market risk concentrations* of 0%.
- For the purposes of 3D31.3(1), a firm must treat exposures that are fully, unconditionally and irrevocably guaranteed by bodies listed in 3D1, where the guarantee meets the requirements set out in 3G9, as exposures to the central government.
- In respect of exposures to central governments and *central banks* other than those referred to in 3D31.3(1), denominated and funded in the domestic currency of that central government and *central bank*, a firm must assign a risk factor g_i for *market risk concentrations* depending on their weighted average *credit quality steps*, in accordance with the following table:

<u>Weighted average credit quality step of single name exposure i</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
Risk factor g_i	<u>0%</u>	<u>0%</u>	<u>12%</u>	<u>21%</u>	<u>27%</u>	<u>73%</u>	<u>73%</u>

7. In respect of exposures to the UK's regional governments and local authorities not listed in 3D1, a firm must assign a risk factor g_i for market risk concentrations corresponding to weighted average credit quality step 2 in accordance with 3D31.6.
8. In respect of exposures that are fully, unconditionally and irrevocably guaranteed by the UK's regional government or local authority that is not listed in 3D1, where the guarantee meets the requirements set out in 3G9, a firm must assign a risk factor g_i for market risk concentration corresponding to weighted average credit quality step 2 in accordance with 3D31.6.
9. A firm must assign to exposures in the form of bank deposits a risk factor g_i for market risk concentration of 0%, provided they meet all of the following requirements:
 - (1) the full value of the exposure is covered by a government guarantee scheme in the UK;
 - (2) the guarantee covers the firm without any restriction; and
 - (3) there is no double counting of such guarantee in the calculation of the SCR.

CURRENCY RISK SUB-MODULE

3D32 CURRENCY RISK SUB-MODULE

1. A firm must calculate the capital requirement for currency risk as equal to the sum of the capital requirements for currency risk for each foreign currency. For these purposes, a firm must treat investments as follows:
 - (1) type 1 equities referred to in 3D7.2 and type 2 equities referred to in 3D7.3 which are listed in stock exchanges operating with different currencies as sensitive to the currency of its main listing;
 - (2) type 2 equities referred to in 3D7.3 which are not listed as sensitive to the currency of the country in which the issuer has its main operations; and
 - (3) immovable property as sensitive to the currency of the country in which it is located.
2. For the purposes of this Chapter, foreign currencies are currencies other than the currency used for the preparation of the firm's financial statements ('the local currency').
3. For each foreign currency, a firm must calculate the capital requirement for currency risk as equal to the higher of the following capital requirements:
 - (1) the capital requirement for the risk of an increase in value of the foreign currency against the local currency; and
 - (2) the capital requirement for the risk of a decrease in value of the foreign currency against the local currency.
4. A firm must calculate the capital requirement for the risk of an increase in value of a foreign currency against the local currency as equal to the loss in its basic own funds that would result from an instantaneous increase of 25% in the value of the foreign currency against the local currency.
5. A firm must calculate the capital requirement for the risk of a decrease in value of a foreign currency against the local currency as equal to the loss in its basic own funds that would result from an instantaneous decrease of 25% in the value of the foreign currency against the local currency.
6. For currencies which are pegged to the euro, a firm may adjust the 25% factor referred to in 3D32.4 and 3D32.5 in accordance with 3D33 and 3D34, provided that all of the following requirements are met:

- (1) the pegging arrangement must ensure that the relative changes in the exchange rate over a one-year period do not exceed the relative adjustments to the 25% factor, in the event of extreme market events, that correspond to the confidence level set out in Solvency Capital Requirement – General Provisions 3.3 and 3.4; and
- (2) one of the following criteria is complied with:
 - (a) participation of the currency in the European Exchange Rate Mechanism (ERM II);
 - (b) existence of a decision from the European Council which recognises pegging arrangements between this currency and the euro; or
 - (c) establishment of the pegging arrangement by the law of country establishing the country's currency.
- 7. For the purposes of 3D32.6(1), the financial resources of the parties that guarantee the pegging must be taken into account.
- 8. The impact of an increase or a decrease in the value of a foreign currency against the local currency on the value of *participations* in *financial institutions* and *credit institutions* as defined in Own Funds 3K.6 must only be taken into account in respect of the value of the *participations* that are not deducted from *own funds* pursuant to Own Funds 3K, and the part deducted from *own funds* must be taken into account only to the extent such impact increases the *firm's basic own funds*.
- 9. Where the higher of the capital requirements referred to in 3D32.3(1) and (2) and the highest of the corresponding capital requirements calculated in accordance with 6.3(2) are not based on the same scenario, a *firm* must apply as the capital requirement for *currency risk* on a given currency the capital requirement referred to in 3D32.3(1) or (2) for which the underlying scenario results in the highest corresponding capital requirement calculated in accordance with 6.3(2).

3D33 ADJUSTED FACTORS FOR CURRENCY RISK WHERE THE LOCAL OR FOREIGN CURRENCY IS THE EURO

- 1. Where the local or foreign currency is the euro, for the purposes of 3D32.4 and 3D32.5, a *firm* must replace the 25% factor with:
 - (1) 0.39% where the other currency is the Danish krone (DKK);
 - (2) 1.81% where the other currency is the lev (BGN);
 - (3) 2.18% where the other currency is the West African CFA franc (BCEAO) (XOF);
 - (4) 1.96% where the other currency is the Central African CFA franc (BEAC) (XAF); and
 - (5) 2.00% where the other currency is the Comorian franc (KMF).

3D34 ADJUSTED FACTORS FOR CURRENCY RISK WHERE THE LOCAL AND THE FOREIGN CURRENCY ARE PEGGED TO THE EURO

- 1. For the purposes of 3D32.4 and 3D32.5, a *firm* must replace the 25% factor with:
 - (1) 2.24% where the two currencies are the DKK and the BGN;
 - (2) 2.62% where the two currencies are the DKK and the XOF;
 - (3) 2.40% where the two currencies are the DKK and the XAF;
 - (4) 2.44% where the two currencies are the DKK and the KMF;
 - (5) 4.06% where the two currencies are the BGN and the XOF;

- (6) 3.85% where the two currencies are the BGN and the XAF;
- (7) 3.89% where the two currencies are the BGN and the KMF;
- (8) 4.23% where the two currencies are the XOF and the XAF;
- (9) 4.27% where the two currencies are the XOF and the KMF; and
- (10) 4.04% where the two currencies are the XAF and the KMF.

3E COUNTERPARTY DEFAULT RISK MODULE

3E1 LISTS OF REGIONAL GOVERNMENTS AND LOCAL AUTHORITIES

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1. A firm must treat exposures to the Scottish Government, the Welsh Government and the Northern Ireland Executive as exposures to the central government of the UK for the calculation of the counterparty default risk module of the standard formula.

3E2 SINGLE NAME EXPOSURES

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1. A firm must calculate the capital requirement for counterparty default risk on the basis of single name exposures. For that purpose exposures to undertakings which belong to the same corporate group must be treated as a single name exposure.
 2. A firm may treat exposures which belong to different members of the same legal or contractual pooling arrangement as different single name exposures where the probability of default of the single name exposure is calculated in accordance with 3E12 and the loss-given-default is calculated as follows:
 - (1) in accordance with 3E6, if it is a pool exposure of type A,
 - (2) in accordance with 3E7, if it is a pool exposure of type B; or
 - (3) in accordance with 3E8, if it is a pool exposure of type C.

Alternatively exposures to the undertakings which belong to the same pooling arrangement must be treated as a single name exposure.

3E3 MORTGAGE LOANS

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1. A firm must treat retail loans secured by mortgages on residential property (mortgage loans) as type 2 exposures under the counterparty default risk provided the requirements in 3E3.2 to 3E3.13 are met.
 2. The exposure must be either to a natural person or persons or to a small or medium-sized enterprise.
 3. The exposure must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced.
 4. The total amount owed to the firm and, where relevant, to all related undertakings, including any exposure in default, by the counterparty or other connected third party, must not, to the knowledge of the firm, exceed GBP 880,000 and the firm must take reasonable steps to acquire this knowledge.
 5. The residential property is or will be occupied or let by the owner.
 6. The value of the property does not materially depend upon the credit quality of the borrower.
 7. The risk of the borrower does not materially depend upon the performance of the underlying property, but on the underlying capacity of the borrower to repay the debt from other sources.

and as a consequence, the repayment of the facility does not materially depend on any cash-flow generated by the underlying property serving as collateral provided by way of a *collateral arrangement*. For those other sources, the *firm* must determine maximum loan-to-income ratio as part of its lending policy and obtain suitable evidence of the relevant income when granting the loan.

8. All of the following requirements on legal certainty must be met:
 - (1) a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and must be properly filed on a timely basis;
 - (2) all legal requirements for establishing the pledge have been fulfilled; and
 - (3) the protection agreement and the legal process underpinning it enable the *firm* to realise the value of the protection within a reasonable timeframe.
9. All of the following requirements on the monitoring of property values and on property valuation must be met:
 - (1) the *firm* must monitor the value of the property on a frequent basis and at a minimum once every three years, provided that the *firm* must carry out more frequent monitoring where the market is subject to significant changes in conditions; and
 - (2) the *firm* must review the property valuation when information available to the *firm* indicates that the value of the property may have declined materially relative to general market prices and that review must be external and independent and carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.
10. For the purposes of 3E3.9, a *firm* may use statistical methods to monitor the value of the property and to identify property that needs revaluation.
11. A *firm* must clearly document the types of residential property it accepts as collateral and its lending policies in this regard and must require the independent valuer of the *market value* of the property, as referred to in 3E11.2, to document that *market value* in a transparent and clear manner.
12. A *firm* must have in place procedures to monitor that the property taken as credit protection is adequately insured against the risk of damage.
13. A *firm* must report all of the following data on losses stemming from mortgage loans to the PRA:
 - (1) losses stemming from loans that have been classified as type 2 exposures in accordance with 3.15 in any given year; and
 - (2) overall losses in any given year.

3E4 LOSS-GIVEN-DEFAULT

1. A *firm* must calculate the loss-given-default on a single name exposure as equal to the sum of the loss-given-default on each of the exposures to *counterparties* belonging to the single name exposure on the following basis:
 - (1) the loss-given-default must be net of the liabilities towards *counterparties* belonging to the single name exposure provided that:
 - (a) those liabilities and exposures are set off in the case of default of the *counterparties*;
 - and
 - (b) 3G2 and 3G3 are complied with in relation to that right of set-off; and

- (2) no offsetting shall be allowed for if the liabilities are expected to be met before the credit exposure is cleared.
2. Where a firm has concluded contractual netting agreements covering several derivatives that represent credit exposure to the same counterparty, it may calculate the loss-given-default on those derivatives, as set out in 3E4.5 to 3E4.8, on the basis of the combined economic effect of all of those derivatives that are covered by the same contractual netting agreement, provided that 3G2 and 3G3 are complied with in relation to the netting.
3. A firm must calculate the loss-given-default on a reinsurance arrangement or insurance securitisation in accordance with the following formula:
- $$LGD = \max[50\% \cdot (Recoverables + 50\% \cdot RM_{re}) - F \cdot Collateral; 0]$$
- where:
- (a) Recoverables denotes the best estimate of amounts recoverable from the reinsurance arrangement or insurance securitisation and the corresponding debtors;
 - (b) RM_{re} denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement or securitisation;
 - (c) Collateral denotes the risk-adjusted value of collateral provided by way of a collateral arrangement in relation to the reinsurance arrangement or securitisation; and
 - (d) F denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty, determined in accordance with 3E10.7.
4. Where the reinsurance arrangement is with a UK Solvency II undertaking, a third country insurance undertaking or a third country reinsurance undertaking and 60% or more of that counterparty's assets are subject to collateral arrangements, a firm must calculate the loss-given-default in accordance with the following formula:
- $$LGD = \max(90\% \cdot (Recoverables + 50\% \cdot RM_{re}) - F' \cdot Collateral; 0)$$
- where:
- F' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in the case of a credit event related to the counterparty, determined in accordance with 3E10.7.
5. A firm must calculate the loss-given-default on a derivative falling within 3E5.1 in accordance with the following formula:
- $$LGD = \max(18\% \cdot (Derivative + 50\% \cdot RM_{fin}) - 50\% \cdot F' \cdot Value; 0)$$
- where:
- (a) Derivative denotes the value of the derivative determined in accordance with Valuation 2.1 to 2.2;
 - (b) RM_{fin} denotes the risk-mitigating effect on market risk of the derivative;
 - (c) Value denotes the value of the assets held as collateral, provided by way of a collateral arrangement, determined in accordance with Valuation 2.1 to 2.2; and
 - (d) F' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty, determined in accordance with 3E10.7.
6. Notwithstanding 3E4.5, a firm must calculate the loss-given-default on a derivative falling within 3E5.2 in accordance with the following formula:

$$LGD = \max(16\% \cdot (Derivative + 50\% \cdot RM_{fin}) - 50\% \cdot F'' \cdot Value; 0)$$

where:

- (a) *Derivative* denotes the value of the *derivative* in accordance with Valuation 2.1 to 2.2;
- (b) *RM_{fin}* denotes the risk-mitigating effect on *market risk* of the *derivative*;
- (c) *Value* denotes the value of the assets held as collateral, provided by way of a *collateral arrangement*, in accordance with Valuation 2.1 to 2.2; and
- (d) *F''* denotes a factor to take into account the economic effect of the *collateral arrangement* in relation to the *derivative* in case of a credit event related to the *counterparty*, determined in accordance with 3E10.7.

7. A firm must calculate the loss-given-default on *derivatives* other than those referred to in 3E4.5 and 3E4.6 in accordance with the following formula, provided that the *derivative* contract meets the requirements of Article 11 of Regulation (EU) 648/2012:

$$LGD = \max(90\% \cdot (Derivative + 50\% \cdot RM_{fin}) - 50\% \cdot F''' \cdot Value; 0)$$

where:

- (a) *Derivative* denotes the value of the *derivative* determined in accordance with Valuation 2.1 to 2.2;
- (b) *RM_{fin}* denotes the risk-mitigating effect on *market risk* of the *derivative*;
- (c) *Value* denotes the value of the assets held as collateral, provided by way of a *collateral arrangement*, determined in accordance with Valuation 2.1 to 2.2; and
- (d) *F'''* denotes a factor to take into account the economic effect of the *collateral arrangement* in relation to the *derivative* in case of a credit event related to the *counterparty*, determined in accordance with 3E10.7.

8. A firm must calculate the loss-given-default on *derivatives* not covered by 3E4.5, 3E4.6 and 3E4.7 in accordance with the following formula:

$$LGD = \max(90\% \cdot (Derivative + RM_{fin}) - F''' \cdot Collateral; 0)$$

where:

- (a) *Derivative* denotes the value of the *derivative* determined in accordance with Valuation 2.1 to 2.2;
- (b) *RM_{fin}* denotes risk-mitigating effect on *market risk* of the *derivative*;
- (c) *Collateral* denotes the risk-adjusted value of collateral provided by way of a *collateral arrangement* in relation to the *derivative*; and
- (d) *F'''* denotes a factor to take into account the economic effect of the *collateral arrangement* in relation to the *derivative* in case of a credit event related to the *counterparty*, determined in accordance with 3E10.7.

9. Where the loss-given-default on *derivatives* is to be calculated on the basis referred to in 3E4.2, the following rules apply for the purposes of 3E4.5 to 3E4.8:

- (1) the value of the *derivative* must be the sum of the values of the *derivatives* covered by the contractual netting arrangement;
- (2) the risk-mitigating effect must be determined at the level of the combination of *derivatives* covered by the contractual netting arrangement; and

- (3) the risk-adjusted value of collateral provided by way of a *collateral arrangement* must be determined at the level of the combination of *derivatives* covered by the contractual netting arrangement.
10. A *firm* must calculate the loss-given-default on a mortgage loan in accordance with the following formula:
- $$LGD = \max(\text{Loan} - (80\% \cdot \text{Mortgage} + \text{Guarantee}); 0)$$
- where:
- (a) *Loan* denotes the value of the mortgage loan determined in accordance with Valuation 2.1 to 2.2;
 - (b) *Mortgage* denotes the risk-adjusted value of the mortgage; and
 - (c) *Guarantee* denotes the amount that the guarantor would be required to pay to the *firm* if the obligor of the mortgage loan were to default at a time when the value of the property held as mortgage were equal to 80% of the risk-adjusted value of the mortgage.
11. For the purposes of 3E4.10(c), a guarantee must only be recognised if it is provided by a *counterparty* mentioned in 3D24.2(1) to (3) and it complies with the requirements set out in 3G2, 3G3 and 3G9.1(1) to (5).
12. A *firm* must calculate the loss-given-default on a legally binding commitment as referred to in 3.14(5) as the difference between its nominal value and its value in accordance with Valuation 2.1 to 2.2.
13. The loss-given-default on cash at bank as referred to in Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008/410 as amended from time to time, of a deposit with a ceding undertaking, of an item listed in 3.14(4) or 3.15(5), or of a receivable from an intermediary or *policyholder* debtor, as well as any other exposure not listed elsewhere in this Chapter must be equal to its value in accordance with Valuation 2.1 to 2.2.

3E5 EXPOSURE TO CLEARING MEMBERS

1. For the purposes of 3E4.5, a *derivative* falls within this rule if the following requirements are met:
- (1) the *derivative* is a *CCP-related transaction* in which the *firm* is the *client*;
 - (2) the positions and assets of the *firm* related to that transaction are distinguished and segregated, at the level of both the *clearing member* and the *CCP*, from the positions and assets of both the *clearing member* and the other *clients* of that *clearing member* and as a result of that distinction and segregation those positions and assets are *bankruptcy remote* in the event of the default or insolvency of the *clearing member* or one or more of its other *clients*;
 - (3) the laws, regulations, rules and contractual arrangements applicable to or binding the *firm* or the *CCP* facilitate the transfer of the *client's* positions relating to that transaction and of the corresponding collateral provided by way of a *collateral arrangement* to another *clearing member* within the applicable margin period of risk in the event of default or insolvency of the original *clearing member* and in such circumstances, the *client's* positions and the collateral must be transferred at *market value*, unless the *client* requests to close out the position at *market value*;
 - (4) the *firm* has available an independent, written and reasoned legal opinion that concludes that, in the event of legal challenge, the relevant courts and administrative authorities

would find that the *client* would bear no losses on account of the insolvency of the *clearing member* or of any the *clients* of that *clearing member* under any of the following laws:

- (a) the laws of the jurisdiction of the *firm*, its *clearing member* or the *CCP*;
- (b) the law governing the transaction;
- (c) the law governing the collateral; and
- (d) the law governing any contract or agreement necessary to meet the requirement set out in (2); and

(5) the *CCP* is a qualifying central counterparty as defined in Article 4(1)(88) of the *CRR*.

2. For the purposes of 3E4.6, a *derivative* falls within this rule if the requirements set out in 3E5.1 are met, with the exception that the *firm* is not required to be protected from losses in the event that the *clearing member* and another *client* of the *clearing member* jointly default.

3E6 LOSS-GIVEN-DEFAULT FOR POOL EXPOSURES OF TYPE A

1. For *pool exposures of type A* which a *firm* is permitted to treat as separate single name exposures in accordance with 3E2.2, where members are each only liable up to their respective portion of the obligation covered by the *pooling arrangement*, the *firm* must calculate the loss-given-default in accordance with 3E4.
2. For *pool exposures of type A* which a *firm* is permitted to treat as separate single name exposures in accordance with 3E2.2, where members are each liable up to the full amount of the obligation covered by the *pooling arrangement*, a *firm* must multiply the loss-given-default calculated in accordance with 3E4 by the risk-share factor, calculated in accordance with the following formula:

$$\text{risk-share factor} = e^{-0.15(\min(SR, 196\%) - 1)}$$

where:

$$(a) \quad SR = (1 - P) \cdot \frac{\sum_i EOF_i}{\sum_i (EOF_i / SR_i)} + \sum_j P_j \cdot SR_j;$$

(b) *i* denotes all pool members which are *UK Solvency II undertakings* and *j* denotes all pool members which are *third country insurance undertakings* or *third country reinsurance undertakings*;

$$(c) \quad P = \sum_j P_j;$$

(d) *P_j* denotes the share of the total risk of the *pooling arrangement* undertaken by pool member *j*; and

(e) for pool members for which a credit assessment by a nominated *external credit assessment institution* is available, *SR_i* and *SR_j* must be assigned in accordance with the following table:

<u>Credit quality step</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>SR_i</u>	<u>196%</u>	<u>196%</u>	<u>175%</u>	<u>122%</u>	<u>95%</u>	<u>75%</u>	<u>75%</u>

(f) for pool members which are *UK Solvency II undertakings* and for which a credit assessment by a nominated *external credit assessment institution* is not available, *SR_i* and *SR_j* must be the latest available solvency ratio; and

(g) for pool members situated in a *third country* and for which a credit assessment by a nominated *external credit assessment institution* is not available:

- (i) SR_i and SR_j must be equal to 100% where the pool member is situated in a *third country* which is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation; and
- (ii) SR_i and SR_j must be equal to 75% where the pool member is situated in a *third country* which is not an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the *IRPR regulations* in respect of the insurance group capital requirements calculation.
3. Where a *firm* is ceding risk to a *pooling arrangement* by the intermediary of a central *undertaking*, the *firm* must treat the central *undertaking* as part of the *pooling arrangement* and calculate its share of the risk accordingly.

3E7 LOSS-GIVEN-DEFAULT FOR POOL EXPOSURES OF TYPE B

1. For *pool exposures of type B* which a *firm* is permitted to treat as separate single name exposures in accordance with 3E2.2, where members are each liable up to the full amount of the obligation covered by the *pooling arrangement*, the *firm* must calculate the loss-given-default in accordance with the following formula:

$$LGD = \max \left(\left((1 - RR_c) \cdot \left(\frac{P_u}{(1 - P_c)} BE_c + \Delta RM_c \right) - F \cdot Collateral \right); 0 \right)$$

where:

- (a) P_u denotes the *firm's* share of the risk according to the terms of the *pooling arrangement*;
- (b) P_c denotes the *counterparty* member's share of the risk according to the terms of the *pooling arrangement*;
- (c) RR_c is equal to:
- (i) 10% if 60% or more of the assets of the *counterparty* member are subject to *collateral arrangements*; or
- (ii) 50% otherwise;
- (d) BE_c denotes the *best estimate* of the liability ceded to the *counterparty* member by the *firm*, net of any amounts reinsured with *counterparties* external to the *pooling arrangement*;
- (e) ΔRM_c denotes the *counterparty* member's contribution to the risk-mitigating effect of the *pooling arrangement* on the underwriting risk of the *firm*;
- (f) *Collateral* denotes the risk-adjusted value of collateral provided by way of *collateral arrangement* held by the *counterparty* member of the *pooling arrangement*; and
- (g) F denotes the factor to take into account the economic effect of the collateral provided by way of a *collateral arrangement* held by the *counterparty* member, calculated in accordance with 3E10.
2. For *pool exposures of type B* which a *firm* is permitted to treat as separate single name exposures in accordance with 3E2.2, where members are each only liable up to their respective portion of the obligation covered by the *pooling arrangement*, the *firm* must calculate the loss-given-default in accordance with the following formula:

$$LGD = \max \left(\left((1 - RR_{CE}) \cdot (P_c \cdot BE_{CE} + \Delta RM_{CE}) - F \cdot Collateral \right); 0 \right)$$

where:

- (a) P_C denotes the *counterparty* member's share of the risk according to the terms of the *pooling arrangement*;
- (b) RR_C is equal to:
 - (i) 10% if 60% or more of the assets of the *counterparty* member are subject to *collateral arrangements*; or
 - (ii) 50% otherwise;
- (c) BE_U denotes the *best estimate* of the liability ceded to the *pooling arrangement* by the undertaking, net of any amounts reinsured with *counterparties* external to the *pooling arrangement*;
- (d) ΔRM_C denotes the *counterparty* member's contribution to the risk-mitigating effect of the *pooling arrangement* on the *underwriting risk* of the *firm*;
- (e) *Collateral* denotes the risk-adjusted value of collateral provided by way of a *collateral arrangement* held by the *counterparty* member of the *pooling arrangement*; and
- (f) F denotes the factor to take into account the economic effect of the collateral provided by way of a *collateral arrangement* held by the *counterparty* member, calculated in accordance with 3E10.

3E8 LOSS-GIVEN-DEFAULT FOR POOL EXPOSURES OF TYPE C

1. For *pool exposures of type C* which a *firm* is permitted to treat as separate single name exposures in accordance with 3E2.2, the *firm* must calculate the loss-given-default in accordance with the following formula:

$$LGD = \max \left(((1 - RR_{CE}) \cdot (P_U \cdot BE_{CE} + \Delta RM_{CE}) - F \cdot \text{Collateral}); 0 \right)$$

where:

- (a) P_U denotes the *firm's* share of the risk according to the terms of the *pooling arrangement*;
- (b) RR_{CE} is equal to:
 - (i) 10% if 60% or more of the assets of the external *counterparty* are subject to *collateral arrangements*; or
 - (ii) 50% otherwise;
- (c) BE_{CE} denotes the *best estimate* of the liability ceded to the external *counterparty* by the *pooling arrangement* as a whole;
- (d) ΔRM_{CE} denotes the external *counterparty's* contribution to the risk-mitigating effect of the *pooling arrangement* on the *underwriting risk* of the *firm*;
- (e) *Collateral* denotes the risk-adjusted value of collateral provided by way of a *collateral arrangement* held by the *counterparty* member of the *pooling arrangement*; and
- (f) F denotes the factor to take into account the economic effect of the collateral provided by way of a *collateral arrangement* held by the *counterparty* member, calculated in accordance with 3E10.

3E9 RISK-MITIGATING EFFECT

1. A *firm* must calculate the risk-mitigating effect on *underwriting risk* or *market risk* of a *reinsurance arrangement*, *securitisation* or *derivative* as the greater of zero and the difference between the following capital requirements:

- (1) the hypothetical capital requirement for *underwriting risk* or *market risk* of the *firm*, calculated in accordance with Chapter 3 and Sections 3A to 3D, that would apply if the *reinsurance* arrangement, *securitisation* or *derivative* did not exist; and
- (2) the capital requirement for *underwriting risk* or *market risk* of the *firm*.

3E10 RISK-ADJUSTED VALUE OF COLLATERAL

1. Where the criteria set out in 3G8 are met, a *firm* must calculate the risk-adjusted value of collateral provided by way of security, as referred to in paragraph (2) of the definition *collateral arrangement*, as the difference between the value of the assets held as collateral, valued in accordance with Valuation 2.1 to 2.2, and the adjustment for *market risk*, as referred to in 3E10.5, provided that both of the following requirements are fulfilled:
 - (1) the *firm* has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the *counterparty* ('the *counterparty* requirement'); and
 - (2) the *firm* has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the custodian or other third party holding the collateral on behalf of the *counterparty* ('the third party requirement').
2. Where the *counterparty* requirement is met and the criteria set out in 3G8 are met and the third party requirement is not met, a *firm* must calculate the risk-adjusted value of a collateral provided by way of security, as referred to in paragraph (2) of the definition *collateral arrangement*, as equal to 90% of the difference between the value of the assets held as collateral in accordance with Valuation 2.1 to 2.2 and the adjustment for *market risk*, as referred to in 3E10.5.
3. Where either the *counterparty* requirement is not met or the requirements in 3G8 are not met, a *firm* must assign a value to the risk-adjusted value of collateral provided by way of security, as referred to in paragraph (2) of the definition *collateral arrangements*, of zero.
4. A *firm* must calculate the risk-adjusted value of a collateral of which full ownership is transferred, as referred to in paragraph (1) of the definition *collateral arrangement*, as the difference between the value of the assets held as collateral, valued in accordance with Valuation 2.1 to 2.2, and the adjustment for *market risk*, as referred to in 3E10.5, provided the requirements in 3G8 are fulfilled.
5. A *firm* must calculate the adjustment for *market risk* as the difference between the following capital requirements:
 - (1) the hypothetical capital requirement for *market risk* of the *firm* that would apply if the assets held as collateral provided by way of a *collateral arrangement* were not included in the calculation; and
 - (2) the hypothetical capital requirement for *market risk* of the *firm* that would apply if the assets held as collateral provided by way of a *collateral arrangement* were included in the calculation.
6. For the purposes of 3E10.5, a *firm* must calculate the *currency risk* of the assets held as collateral by comparing the currency of the assets held as collateral against the currency of the corresponding exposure.
7. Where, in case of insolvency of the *counterparty*, the determination of the *firm*'s proportional share of the *counterparty*'s insolvency estate in excess of the collateral does not take into account that the *firm* receives the collateral, the factors F , F' , F'' and F''' referred to in 3E4.3 to

3E4.8 and 7.35 must all be 100% and in all other cases these factors must be 50%, 18%, 16% and 90% respectively.

3E11 RISK-ADJUSTED VALUE OF MORTGAGE

1. A firm must calculate the risk-adjusted value of mortgage as the difference between the value of the residential property held as mortgage, valued in accordance with 3E11.2, and the adjustment for *market risk*, as referred to in 3E11.3.
2. A firm must calculate the value of the residential property held as mortgage as the *market value*, reduced as appropriate to reflect the results of the monitoring required under 3E3.9 and 3E3.10 and to take account of any prior claims on the property and the external, independent valuation of the property must be the same or less than the *market value* calculated in accordance with Valuation 2.1 to 2.2.
3. A firm must calculate the adjustment for *market risk* referred to in 3E11.1 as the difference between the following capital requirements:
 - (1) the hypothetical capital requirement for *market risk* of the *firm* that would apply if the residential property held as mortgage were not included in the calculation; and
 - (2) the hypothetical capital requirement for *market risk* of the *firm* that would apply if the residential property held as mortgage were included in the calculation.
4. For the purposes of 3E11.2, a firm must calculate the *currency risk* of the residential property held as mortgage by comparing the currency of the residential property against the currency of the corresponding loan.

TYPE 1 EXPOSURES

3E12 PROBABILITY OF DEFAULT

1. A firm must calculate the probability of default on a single name exposure as equal to the average of the probabilities of default on each of the exposures to *counterparties* that belong to the single name exposure, weighted by the loss-given-default in respect of those exposures.
2. A firm must assign to a single name exposure *i* for which a credit assessment by a nominated *external credit assessment institution* is available, a probability of default PD_i in accordance with the following table:

<u>Credit quality step</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>Probability of default PD_i</u>	<u>0.002%</u>	<u>0.01%</u>	<u>0.05%</u>	<u>0.24%</u>	<u>1.2%</u>	<u>4.2%</u>	<u>4.2%</u>

3. In respect of single name exposures *i* to a *UK Solvency II undertaking* for which a credit assessment by a nominated *external credit assessment institution* is not available and where this *UK Solvency II undertaking* meets its MCR, a firm must assign a probability of default PD_i depending on the *UK Solvency II undertaking's* solvency ratio, in accordance with the following table:

<u>Solvency ratio</u>	<u>196%</u>	<u>175%</u>	<u>150%</u>	<u>125%</u>	<u>122%</u>	<u>100%</u>	<u>95%</u>	<u>75%</u>
<u>Probability of</u>	<u>0.01%</u>	<u>0.05%</u>	<u>0.1%</u>	<u>0.2%</u>	<u>0.24%</u>	<u>0.5%</u>	<u>1.2%</u>	<u>4.2%</u>

<u>default</u>								
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Where the solvency ratio falls in between the solvency ratios specified in the table above, the value of the probability of default must be linearly interpolated from the closest values of probabilities of default corresponding to the closest solvency ratios specified in the table above, provided that:

- (1) where the solvency ratio is lower than 75%, the probability of default must be 4.2%; and
- (2) where the solvency ratio is higher than 196%, the probability of default must be 0.01%.

For the purposes of this rule, 'solvency ratio' denotes the ratio of the *eligible own funds* to cover the *SCR* and the *SCR*, using the latest available values.

4. A firm must assign a probability of default equal to 4.2% to exposures to a UK Solvency II undertaking that does not meet its MCR.
5. 3E12.3 and 3E12.4 only apply as of the first date of public disclosure, by the UK Solvency II undertaking corresponding to the exposure, of the SFCR and before that date, the following applies:
 - (1) if a credit assessment by a nominated external credit assessment institution is available for the exposures, 3E12.2 applies;
 - (2) in all other cases, a firm must assign to the exposures the same risk factor as the ones that would result from the application of 3E3.3 to exposures to a UK Solvency II undertaking whose solvency ratio is 100%.
6. In respect of exposures to a third country insurance undertaking or a third country reinsurance undertaking for which a credit assessment by a nominated external credit assessment institution is not available, situated in a third country which is an overseas jurisdiction designated under regulation 11 in relation to regulation 13 of the IRPR regulations in respect of the insurance group capital requirements calculation, and which complies with the solvency requirements of that third country, a firm must assign a probability of default equal to 0.5%.
7. In respect of exposures to credit institutions and financial institutions which comply with the solvency requirements set out in the PRA Rulebook, the CRR or technical standards as amended from time to time, for which a credit assessment by a nominated external credit assessment institution is not available, a firm must assign a probability of default equal to 0.5%.
8. A firm must assign a probability of default equal to 0% to exposures to counterparties referred to in 3D24.2(1) to (3)
9. A firm must calculate the probability of default on single name exposures other than those identified in 3E12.2 to 3E12.8 as equal to 4.2%.
10. Where a letter of credit, a guarantee or an equivalent arrangement is provided to fully secure an exposure and this arrangement complies with 3G2 to 3G9, a firm may treat the provider of that letter of credit, guarantee or equivalent arrangement as the counterparty on the secured exposure for the purposes of assessing the probability of default of a single name exposure.
11. For the purposes of 3E12.10, a firm must treat exposures fully, unconditionally and irrevocably guaranteed by counterparties listed in 3E1 as exposures to the central government.
12. Notwithstanding 3E12.2 to 3E12.11, a firm must assign to exposures referred to 3E4.5 a probability of default equal to 0.002%.
13. Notwithstanding 3E12.2 to 3E12.12, a firm must assign to exposures referred to 3E4.6 a probability of default equal to 0.01%.

3E13 TYPE 1 EXPOSURES

1. Where the standard deviation of the loss distribution of type 1 exposures as referred to in 3.13 to 3.19 is lower than or equal to 7% of the total loss-given-default on all type 1 exposures, a *firm* must calculate the capital requirement for *counterparty* default risk on type 1 exposures in accordance with the following formula:

$$SCR_{def,1} = 3 \cdot \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures, as defined in 3E13.4.

2. Where the standard deviation of the loss distribution of type 1 exposures is higher than 7% of the total loss-given-default on all type 1 exposures and lower or equal to 20% of the total loss-given-default on all type 1 exposures, a *firm* must calculate the capital requirement for *counterparty* default risk on type 1 exposures in accordance with the following formula:

$$SCR_{def,1} = 5 \cdot \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures.

3. Where the standard deviation of the loss distribution of type 1 exposures is higher than 20% of the total loss-given-default on all type 1 exposures, a *firm* must calculate the capital requirement for *counterparty* default risk on type 1 exposures as equal to the total loss-given-default on all type 1 exposures.

4. A *firm* must calculate the standard deviation of the loss distribution of type 1 exposures in accordance with the following formula:

$$\sigma = \sqrt{V}$$

where V denotes the variance of the loss distribution of type 1 exposures.

3E14 VARIANCE OF THE LOSS DISTRIBUTION OF TYPE 1 EXPOSURES

1. The variance of the loss distribution of type 1 exposures as referred to in 3E13.4 must be equal to the sum of V_{inter} and V_{intra} .

2. A *firm* must calculate V_{inter} in accordance with the following formula:

$$V_{inter} = \sum_{(j,k)} \frac{PD_k \cdot (1 - PD_k) \cdot PD_j \cdot (1 - PD_j)}{1.25 \cdot (PD_k + PD_j) - PD_k \cdot PD_j} \cdot TLGD_j \cdot TLGD_k$$

where:

- (a) the sum covers all possible combinations (j,k) of probabilities of default on single name exposures in accordance with 3E12; and
- (b) $TLGD_j$ and $TLGD_k$ denote the sum of loss-given-default on type 1 exposures from *counterparties* bearing a probability of default PD_j and PD_k respectively.

3. A *firm* must calculate V_{intra} in accordance with the following formula:

$$V_{intra} = \sum_j \frac{1.5 \cdot PD_j \cdot (1 - PD_j)}{2.5 - PD_j} \cdot \sum_{PD_j} LGD_i^2$$

where:

- (a) the first sum covers all different probabilities of default on single name exposures in accordance with 3E12;

- (b) the second sum covers all single name exposures that have a probability of default equal to PD_i ; and
- (c) LGD_i denotes the loss-given-default on the single name exposure i .

TYPE 2 EXPOSURES

3E15 TYPE 2 EXPOSURES

1. A firm must calculate the capital requirement for counterparty default risk on type 2 exposures as equal to the loss in its *basic own funds* that would result from an instantaneous decrease in value of type 2 exposures calculated in accordance with the following formula:

$$90\% \cdot LGD_{receivables>3\ months} + \sum_i 15\% \cdot LGD_i$$

where:

- (a) $LGD_{receivables>3\ months}$ denote the total loss-given-default on all receivables from intermediaries which have been due for more than three *months*;
- (b) the sum is taken on all type 2 exposures other than receivables from intermediaries which have been due for more than three *months*; and
- (c) LGD_i denotes the loss-given-default on the type 2 exposure i .

3F INTANGIBLE ASSET MODULE

3F1 INTANGIBLE ASSET MODULE

1. A firm must calculate the capital requirement for intangible asset risk in accordance with the following formula:

$$SCR_{intangible} = 0.8 \cdot V_{intangible}$$

where $V_{intangibles}$ denotes the amount of intangible assets as recognised and valued in accordance with Valuation 8.1(2).

3G RISK MITIGATION TECHNIQUES

3G1 METHODS AND ASSUMPTIONS

1. Where a firm transfers *underwriting risk* using a *reinsurance contract* or *special purpose vehicle* that meets the requirements set out in 3G2, 3G5 and 3G7, and where the arrangement provides for protection in several of the scenario-based calculations set out in Sections 3A to 3C, the firm must allocate the risk-mitigating effects of the contractual arrangement to the scenario-based calculations in a manner that, without double-counting, captures the economic effect of the protections provided and, in particular, captures the economic effect of the protections provided in determining the loss in *basic own funds* in the scenario-based calculations.
2. Where a firm transfers *underwriting risk* using a *finite reinsurance contract* that meets the requirements set out in 3G2, 3G5 and 3G7:
- (1) subject to (2), the firm may recognise that contract in the scenario-based calculations set out in Sections 3A to 3C only to the extent *underwriting risk* is transferred to the *counterparty* of the contract; and

- (2) the firm must not take into account *finite reinsurance*, or similar arrangements where the effective risk transfer is comparable to that of *finite reinsurance*, for the purposes of determining the volume measures for *premium* and reserve risk in accordance with 3A2 and 3C3, or for the purposes of calculating *undertaking specific parameters* in accordance with the Solvency Capital Requirement – Undertaking Specific Parameters Part.

3G2 QUALITATIVE CRITERIA

1. When calculating the *basic SCR*, a firm must only take into account a *risk-mitigation technique* as referred to in Solvency Capital Requirement – General Provisions 3.5 where all of the following qualitative criteria are met:
 - (1) the contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions;
 - (2) the firm has taken all appropriate steps to ensure the effectiveness of the arrangement and to address the risks related to that arrangement;
 - (3) the firm is able to monitor the effectiveness of the arrangement and the related risks on an ongoing basis;
 - (4) the firm has, in the event of a default, insolvency or bankruptcy of a *counterparty* or other credit event set out in the transaction documentation for the arrangement, a direct claim on that *counterparty*; and
 - (5) there is no double counting of risk-mitigation effects in *own funds* and in the calculation of the *SCR* or within the calculation of the *SCR*.
2. Subject to 3G2.3, a firm must take a *risk-mitigation technique* into account in the calculation of the *basic SCR* on the following basis:
 - (1) full recognition of the risk mitigation effect of the *risk-mitigation technique* where it is in force for at least the next 12 months and meets the qualitative criteria set out in Section 3G; or
 - (2) partial recognition of the risk-mitigation effect of a *risk-mitigation technique* where it is in force for a period shorter than 12 months and meets the qualitative criteria set out in Section 3G, in proportion to the length of time involved for the shorter of the full term of the risk exposure or the period that the *risk-mitigation technique* is in force.
3. A firm must take a *risk-mitigation technique* into account in the calculation of the *basic SCR* on the basis of full recognition of its risk mitigation effect, where contractual arrangements governing the *risk-mitigation technique* will be in force for a period shorter than the next 12 months and the firm intends to replace that *risk-mitigation technique* at the time of its expiry with a similar arrangement or where that *risk-mitigation technique* is subject to an adjustment to reflect changes in the exposure that it covers, provided all of the following qualitative criteria are met:
 - (1) the firm has a written policy on the replacement or adjustment of that *risk-mitigation technique*, covering situations including the situation where the firm uses several contractual arrangements in combination to transfer risk as referred to in 3G3.5;
 - (2) the replacement or adjustment of the *risk-mitigation technique* takes place more often than once per week only in cases where, without the replacement or adjustment, an event would have a material adverse impact on the solvency position of the firm;
 - (3) the replacement or adjustment of the *risk-mitigation technique* is not conditional on any future event which is outside of the control of the firm and where the replacement or adjustment of the *risk-mitigation technique* is conditional on any future event that is within

the control of the *firm*, the conditions for such replacement or adjustment are clearly documented in the written policy referred to in (1);

- (4) the replacement or adjustment of the *risk-mitigation technique* is realistically based on replacements and adjustments undertaken previously by the *firm* and consistent with the *firm's* current business practice and business strategy;
- (5) there is no material risk that the *risk-mitigation technique* cannot be replaced or adjusted due to an absence of liquidity in the market;
- (6) the risk that the cost of replacing or adjusting the *risk-mitigation technique* increases during the following 12 *months* is reflected in the *SCR*;
- (7) the replacement or adjustment of the *risk-mitigation technique* would not be contrary to requirements that apply to future management actions set out in Technical Provisions – Further Requirements 8.5;
- (8) the initial contractual maturity is not shorter than one *month* in cases where the *firm* transfers risks through the purchase or issuance of financial instruments; and
- (9) the initial contractual maturity is not shorter than three *months* where the *firm* transfers *underwriting risks* using *reinsurance contracts* or *special purpose vehicles*.

3G3 EFFECTIVE TRANSFER OF RISK

- 1. A *firm* must only take a *risk-mitigation technique* into account in the calculation of the *basic SCR* where the contractual arrangements governing the *risk-mitigation technique* ensure that the extent of the cover provided by the *risk-mitigation technique* and the transfer of risk is clearly defined and incontrovertible.
- 2. The contractual arrangement must not result in material *basis risk* or in the creation of other risks, unless this is reflected in the calculation of the *SCR*.
- 3. A *firm* must treat *basis risk* as material if it leads to a misstatement of the risk-mitigating effect on the *firm's basic SCR* that could influence the decision-making or judgement of the intended user of that information, including the *supervisory authorities*.
- 4. In determining whether the contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions in accordance with 3G2.1(1), a *firm* must take into account the following:
 - (1) whether the contractual arrangement is subject to any condition which could undermine the effective transfer of risk, the fulfilment of which is outside the direct control of the *firm*; and
 - (2) whether there are any connected transactions which could undermine the effective transfer of risk.
- 5. Where a *firm* combines several contractual arrangements to transfer risk, each of the contractual arrangements must meet the requirements set out in 3G3.1 and 3G3.4 and the contractual arrangements in combination must meet the requirements set out in 3G3.2 and 3G3.3.

3G4 MATERIAL BASIS RISK

- 1. Notwithstanding 3G3.2, where a *firm* transfers *underwriting risk* using a *reinsurance contract* or a *special purpose vehicle* that is subject to material *basis risk* stemming from a currency mismatch between *underwriting risk* and the *risk-mitigation technique*, a *firm* may take into account the *risk-mitigation technique* in the calculation of the *SCR* according to the *standard*

formula, provided that the *risk-mitigation technique* complies with 3G2, 3G3.1, 3G3.3, 3G3.4 and 3G5, and the calculation is carried out as follows:

- (1) the firm must take the *basis risk* stemming from a currency mismatch between *underwriting risk* and the *risk-mitigation technique* into account in the relevant *underwriting risk* module, sub-module or scenario of the *standard formula* at the most granular level by adding 25% of the difference between the following to the capital requirement calculated in accordance with the relevant module, sub-module or scenario:
 - (a) the hypothetical capital requirement for the relevant *underwriting risk* module, sub-module or scenario that would result from a simultaneous occurrence of the scenario set out in 3D32; and
 - (b) the capital requirement for the relevant *underwriting risk* module, sub-module or scenario; and
- (2) where the *risk-mitigation technique* covers more than one module, sub-module or scenario, the firm must apply the calculation referred to in (1) for each of those modules, sub-modules and scenarios and the capital requirement resulting from those calculations must not exceed 25% of the capacity of the non-proportional *reinsurance contract* or *special purpose vehicle*.

3G5 RISK-MITIGATION TECHNIQUES USING REINSURANCE CONTRACTS OR SPECIAL PURPOSE VEHICLES

1. Where a firm transfers *underwriting risk* using a *reinsurance contract* or *special purpose vehicle*, the firm must only take the *risk-mitigation technique* into account in the calculation of the *basic SCR* if the qualitative criteria set out in 3G2 and 3G3 and those set out in 3G5.2 to 3G5.6 are met.
2. In the case of a *reinsurance contract* the *counterparty* must be any of the following:
 - (1) a UK Solvency II undertaking which complies with the SCR;
 - (2) a third country insurance undertaking or a third country reinsurance undertaking, situated in a third country which is an overseas jurisdiction designated under regulation 11 in relation to regulation 12 of the IRPR regulations in respect of reinsurance contracts, and which complies with the solvency requirements of that third country; or
 - (3) a third country insurance undertaking or a third country reinsurance undertaking, situated in a third country which is not an overseas jurisdiction designated under regulation 11 in relation to regulation 12 of the IRPR regulations in respect of reinsurance contracts, and which has been assigned to credit quality step 3 or better in accordance with 1A to 1C.
3. Where a counterparty to a reinsurance contract is a UK Solvency II undertaking which ceases to comply with its SCR after the reinsurance contract has been entered into, a firm may partially recognise the protection offered by the insurance *risk-mitigation technique* for a period of no longer than six months after the counterparty ceases to comply with its SCR and, in that case, the effect of the *risk-mitigation technique* must be reduced by the percentage by which the SCR is breached, provided that:
 - (1) as soon as the counterparty has restored compliance with its SCR, the firm must no longer reduce the effect of the *risk-mitigation technique*; and
 - (2) where:
 - (a) the counterparty fails to restore compliance with its SCR within that period of six months; or

- (b) where, before the end of the period of six months, the firm becomes aware that it is unlikely that the counterparty will be able to restore compliance with its SCR within that period,
- the firm must no longer recognise the effect of the risk-mitigation technique in the calculation of the basic SCR.
4. Notwithstanding 3G5.3, where a counterparty to a reinsurance contract is a UK Solvency II undertaking which ceases to comply with its MCR after the reinsurance contract has been entered into, a firm must cease to recognise the effect of the risk-mitigation technique in the calculation of the basic SCR.
5. Where risk is transferred to a UK ISPV, a firm must only take the risk-mitigation technique into account in the calculation of the basic SCR where the requirements in Insurance Special Purpose Vehicles Part 2, 2A to 2C and 5A.1 to 5A.5 are met, provided that:
- (1) where the requirements for a UK ISPV to be fully funded cease to be fully met after the arrangement has been entered into, the firm may only partially recognise the protection offered by the insurance risk-mitigation technique if the firm can demonstrate that compliance with the fully funded requirement will be restored within three months; and
- (2) for this purpose, the effect of the risk-mitigation technique must be reduced by the percentage of the aggregate maximum risk exposure of the UK ISPV, referred to in Insurance Special Purpose Vehicles 2.2 to 2.5 not covered by the assets of the UK ISPV.
6. Where risk is transferred to a special purpose vehicle that is regulated by a third country supervisory authority, a firm must not take the risk-mitigation technique into account in the calculation of the basic SCR unless requirements equivalent to those set out in Insurance Special Purpose Vehicles Part 2, 2A to 2C and 5A.1 to 5A.5 are met by the special purpose vehicle.

3G6 FINANCIAL RISK-MITIGATION TECHNIQUES

1. Where a firm transfers risk other than in the cases referred to in 3G5.1, including transfers through the purchase or issuance of financial instruments, the firm may only take that risk-mitigation technique into account in the calculation of the basic SCR if the qualitative criteria provided in 3G6.2 to 3G6.5 are met, in addition to the qualitative criteria set out in 3G2 and 3G3.
2. The risk-mitigation technique must be consistent with the firm's written policy on risk management, as referred to in Conditions Governing Business 2.5.
3. The firm must be able to value the assets and liabilities that are subject to the risk-mitigation technique and, where the risk-mitigation technique includes the use of financial instruments, the firm must be able to value the financial instruments reliably in accordance with Valuation 2.1 to 2.2.
4. Where the risk-mitigation technique includes the use of financial instruments, the financial instruments must have a credit quality which has been assigned to credit quality step 3 or better in accordance with 1A to 1C.
5. Where the risk-mitigation technique is not a financial instrument, the counterparties to the risk-mitigation technique must have a credit quality which has been assigned to credit quality step 3 or better in accordance with 1A to 1C.

3G7 STATUS OF THE COUNTERPARTIES

1. In the event that the qualitative criteria in 3G5.1, 3G6.4 or 3G6.5 are not met, a firm must only take into account the risk-mitigation technique when calculating the basic SCR where one of the following criteria is met:
 - (1) the risk-mitigation technique meets the qualitative criteria set out in 3G2, 3G3, 3G6.2 and 3G6.3 and collateral arrangements exist that meet the criteria provided in 3G8; and
 - (2) the risk-mitigation technique is accompanied by another risk-mitigation technique that, when viewed in combination with the first technique, meets the qualitative criteria set out in 3G2, 3G3, 3G6.2 and 3G6.3, with the counterparties to that other technique meeting the criteria provided in 3G5.1, 3G6.4 and 3G6.5.
2. For the purposes of 3G7.1(1), where the value, of the collateral provided by way of a collateral arrangement, valued in accordance with Valuation 2.1 to 2.2, is less than the total risk exposure, the firm must only take the collateral arrangement into account to the extent that the collateral covers the risk exposure.

3G8 COLLATERAL ARRANGEMENTS

1. In the calculation of the basic SCR, a firm must only recognise collateral arrangements where, in addition to the qualitative criteria in 3G2 and 3G3, the following criteria are met:
 - (1) the firm transferring the risk must have the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event of the counterparty;
 - (2) there is sufficient certainty as to the protection achieved by the collateral because of either of the following:
 - (a) it is of sufficient credit quality, is of sufficient liquidity and is sufficiently stable in value;
or
 - (b) it is guaranteed by a counterparty, other than a counterparty referred to in 3D31.9 and 3D28.2 who has been assigned a risk factor for concentration risk of 0%;
 - (3) there is no material positive correlation between the credit quality of the counterparty and the value of the collateral; and
 - (4) the collateral is not securities issued by the counterparty or a related undertaking of that counterparty.
2. Where a collateral arrangement involves collateral being held by a custodian or other third party, the firm must ensure that all of the following criteria are met:
 - (1) the relevant custodian or other third party segregates the assets held as collateral from its own assets;
 - (2) the segregated assets are held by a deposit-taking institution that has a credit quality which has been assigned to credit quality step 3 or better in accordance with 1A to 1C;
 - (3) the segregated assets are individually identifiable and can only be changed or substituted with the consent of the firm or a person acting as a trustee in relation to the firm's interest in such assets;
 - (4) the firm has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the segregated assets in the event of a default, insolvency or bankruptcy or other credit event relating to the custodian or other third party holding the collateral on behalf of the counterparty; and

- (5) the segregated assets must not be used to pay, or to provide collateral in favour of, any person other than the firm or as directed by the firm.

3G9 GUARANTEES

1. In the calculation of the *basic SCR*, a *firm* must only recognise guarantees where explicitly referred to in this Chapter, and where in addition to the qualitative criteria in 3G2 and 3G3, all of the following criteria are met:
- (1) the credit protection provided by the guarantee is direct;
 - (2) the extent of the credit protection is clearly defined and incontrovertible;
 - (3) the guarantee does not contain any clause, the fulfilment of which is outside the direct control of the lender, that:
 - (a) would allow the protection provider to cancel the protection unilaterally;
 - (b) would increase the effective cost of protection as a result of a deterioration in the credit quality of the protected exposure;
 - (c) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due; or
 - (d) could allow the maturity of the credit protection to be reduced by the protection provider;
 - (4) on the default, insolvency or bankruptcy or other credit event of the *counterparty*, the *firm* has the right to pursue, in a timely manner, the guarantor for any monies due under the claim in respect of which the protection is provided and the payment by the guarantor must not be subject to the *firm* first having to pursue the obligor;
 - (5) the guarantee is an explicitly documented obligation assumed by the guarantor; and
 - (6) the guarantee fully covers all types of regular payments the obligor is expected to make in respect of the claim.

...

5 CAPITAL REQUIREMENT FOR OPERATIONAL RISK

...

- 5.3 With respect to *insurance business* operations other than those referred to in 5.2, the capital requirement for *operational risk* must:
- (1) take into account the volume of those operations, in terms of ~~earned premium~~~~seamed premiums~~ and *technical provisions* which are held in respect of that *insurance business*; and
 - (2) not exceed 30% of the *basic SCR* relating to those operations; ~~and~~
 - (3) comply with 5.4.

- 5.4 (1) A *firm* must calculate the capital requirement for the *operational risk* module in accordance with the following formula:

$$SCR_{operational} = \min(0.3 \cdot BSCR; Op) + 0.25 \cdot Exp_{ul}$$

where:

- (a) *BSCR* denotes the *basic SCR*;

(b) Op denotes the basic capital requirement for *operational risk* as referred to in (2);
and

(c) Exp_{ul} denotes the amount of expenses incurred during the previous 12 months in respect of *long-term insurance contracts* where the investment risk is borne by *policyholders*.

(2) A firm must calculate the basic capital requirement for *operational risk* in accordance with the following formula:

$$Op = \max(Op_{premiums}; Op_{provisions})$$

where:

(a) $Op_{premiums}$ denotes the capital requirement for *operational risk* based on *earned premiums*; and

(b) $Op_{provisions}$ denotes the capital requirement for *operational risk* based on *technical provisions*.

(3) A firm must calculate the capital requirement for *operational risk* based on *earned premiums* as follows:

$$Op_{premiums} = 0.04 \cdot (Earn_{life} - Earn_{life-ul}) + 0.03 \cdot Earn_{non-life} + \max(0; 0.04 \cdot (Earn_{life} - 1.2 \cdot pEarn_{life} - (Earn_{life-ul} - 1.2 \cdot pEarn_{life-ul}))) + \max(0; 0.03(Earn_{non-life} - 1.2 \cdot pEarn_{non-life}))$$

where:

(a) $Earn_{life}$ denotes the *premiums* earned during the last 12 months for *long-term insurance and reinsurance obligations*, without deducting *premiums* for *reinsurance contracts*;

(b) $Earn_{life-ul}$ denotes the *premiums* earned during the last 12 months for *long-term insurance and reinsurance obligations* where the investment risk is borne by the *policyholders* without deducting *premiums* for *reinsurance contracts*;

(c) $Earn_{non-life}$ denotes the *premiums* earned during the last 12 months for *general insurance and reinsurance obligations*, without deducting *premiums* for *reinsurance contracts*;

(d) $pEarn_{life}$ denotes the *premiums* earned during the 12 months prior to the last 12 months for *long-term insurance and reinsurance obligations*, without deducting *premiums* for *reinsurance contracts*;

(e) $pEarn_{life-ul}$ denotes the *premiums* earned during the 12 months prior to the last 12 months for *long-term insurance and reinsurance obligations* where the investment risk is borne by the *policyholders* without deducting *premiums* for *reinsurance contracts*; and

(f) $pEarn_{non-life}$ denotes the *premiums* earned during the 12 months prior to the last 12 months for *general insurance and reinsurance obligations*, without deducting *premiums* for *reinsurance contracts*.

For the purposes of (3), *earned premiums* must be gross, without deduction of *premiums* for *reinsurance contracts*.

(4) A firm must calculate the capital requirement for *operational risk* based on *technical provisions* in accordance with the following formula:

$$Op_{provisions} = 0.0045 \cdot \max(0; TP_{life} - TP_{life-ul}) + 0.03 \cdot \max(0; TP_{non-life})$$

where:

- (a) TP_{life} denotes the *technical provisions* for *long-term insurance and reinsurance obligations*;
- (b) $TP_{life-ul}$ denotes the *technical provisions* for *long-term insurance obligations* where the investment risk is borne by the *policyholders*; and
- (c) $TP_{non-life}$ denotes the *technical provisions* for *general insurance and reinsurance obligations*.

For the purposes of (4), *technical provisions* must not include the *risk margin*, and must be calculated without deduction of recoverables from *reinsurance contracts* and *special purpose vehicles*.

6 ADJUSTMENT FOR LOSS-ABSORBING CAPACITY OF TECHNICAL PROVISIONS AND DEFERRED TAXES

6.1 The adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes as referred to in 2.1(3) must:

- (1) ~~must~~ reflect potential compensation of unexpected losses through a simultaneous decrease in *technical provisions* or deferred taxes, or a combination of the two; ~~and~~
- (2) ~~must~~ take account of the risk-mitigating effect provided by *future discretionary benefits* ~~future discretionary benefits of contracts of insurance; and-~~
- (3) represent the sum of:
 - (a) the adjustment for the loss-absorbing capacity of *technical provisions* calculated in accordance with 6.3; and
 - (b) the adjustment for the loss-absorbing capacity of deferred taxes calculated in accordance with 6.4 and, if applicable, 6.5.

...

6.3 (1) A firm must calculate the adjustment for the loss-absorbing capacity of *technical provisions* in accordance with the following formula:

$$Adj_{TP} = -\max(\min(BSCR - nBSCR; FDB); 0)$$

where:

- (a) $BSCR$ denotes the *basic SCR*;
 - (b) $nBSCR$ denotes the net *basic SCR* calculated in accordance with (2); and
 - (c) FDB denotes the *technical provisions* without *risk margin* in relation to *future discretionary benefits*.
- (2) The net *basic SCR* is the *basic SCR* calculated with all the following modifications:
- (a) where the calculation of a module or sub-module of the *basic SCR* is based on the impact of a scenario on a firm's *basic own funds*, the firm must assume that the scenario can change the value of the *future discretionary benefits* included in *technical provisions*;
 - (b) the scenario based calculations of the life *underwriting risk* module, the *SLT health underwriting risk* sub-module, the *health catastrophe risk* sub-module, the *market risk* module and the *counterparty default risk* module as well as the scenario-based calculation set out in (c) and (d) must take into account the impact of the scenario on *future discretionary benefits* included in *technical provisions* and this must be done on

the basis of assumptions on future management actions that comply with Technical Provisions – Further Requirements 8;

- (c) instead of the capital requirement for *counterparty* default risk on type 1 exposures referred to in 3.13, the calculation must be based on the capital requirement that is equal to the loss in the *firm's basic own funds* that would result from an instantaneous loss, due to default events relating to type 1 exposures referred to in 3.14, of the amount of the capital requirement for *counterparty* default risk on type 1 exposures referred to in 3.13; and
 - (d) where a *firm* uses a simplified calculation for a specific capital requirement as set out in 7.8, 7.9, 7.10, 7.11, 7.12(1), 7.12(2), 7.14, 7.20, 7.23(1)(a), 7.23(1)(b) or 7.24, the *firm* must base the calculation on the capital requirement that is equal to the loss in its *basic own funds* that would result from an instantaneous loss of the amount of the capital requirement referred to in the relevant rule and must assume that the instantaneous loss is due to the risk that the capital requirement referred to in that rule captures.
- (3) For the purposes of (2)(b), a *firm* must take into account any legal, regulatory or contractual restrictions in the distribution of *future discretionary benefits*.
- 6.4 (1) A *firm* must calculate the adjustment for the loss-absorbing capacity of deferred taxes as equal to the change in the value of its deferred taxes that would result from an instantaneous loss of an amount that is equal to the sum of the following:
- (a) the *basic SCR*;
 - (b) the adjustment for the loss-absorbing capacity of *technical provisions* referred to in 6.3; and
 - (c) the capital requirement for *operational risk* as set out in 5.
- (2) For the purposes of (1), deferred taxes must be valued in accordance with Valuation 11.1 and 11.2, without prejudice to (3) and 6.5.
- (3) Where the loss referred to in (1) would result in an increase in the amount of deferred tax assets, a *firm* must not utilise that increase for the purposes of calculating the adjustment referred to in (1), unless 6.5 applies.
- (4) A *firm* may assume the implementation of future management actions following the loss referred to in (1), provided that the provisions set out in Technical Provisions – Further Requirements 8 are complied with.
- (5) For the purposes of (1), a decrease in deferred tax liabilities or an increase in deferred tax assets must result in a negative adjustment for the loss-absorbing capacity of deferred taxes.
- (6) Where the calculation of the adjustment in accordance with (1) results in a positive change of deferred taxes, the adjustment must be nil.
- (7) Where it is necessary to allocate the loss referred to in (1) to its causes in order to calculate the adjustment for the loss-absorbing capacity of deferred taxes, a *firm* must:
- (a) allocate the loss to the risks that are captured by the *basic SCR* and the capital requirement for *operational risk*;
 - (b) make that allocation consistent with the contribution of the modules and sub-modules of the *standard formula* to the *basic SCR*; and
 - (c) where a *firm* has an *internal model permission* to use a *partial internal model* and where the adjustment for the loss-absorbing capacity of *technical provisions* and

deferred taxes is not within the scope of the *partial internal model*, make that allocation consistent with the contribution of the modules and sub-modules of the *standard formula* which are outside of the scope of the *partial internal model* to the *basic SCR*.

- 6.5 (1) For a transitional period ending on 30 December 2025, where the loss referred to in 6.4(1) would result in an increase in the amount of deferred tax assets, a *firm* may utilise that increase for the purposes of calculating the adjustment referred to in 6.4(1), if all of the following requirements are met:
- (a) it is probable that future taxable profit will be available against which that increase can be utilised;
 - (b) the *firm* has determined that the requirement in (a) is met based on an assessment that:
 - (i) takes account of all of the matters referred to in (2); and
 - (ii) uses assumptions that comply with the requirements in (3);
 - (c) the *firm* has documentary evidence explaining how the requirements in (a) and (b) are met and can provide that evidence to the *PRA*, if the *PRA* requests it; and
 - (d) the *firm* has given the *PRA* advance notice in writing that it proposes to utilise an increase in deferred tax assets in accordance with this rule.
- (2) The relevant matters for the purpose of (1)(b)(i) are:
- (a) any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits;
 - (b) the magnitude of the loss referred to in 6.4(1) and its impact on the *firm's* current and future financial situation and on insurance product pricing, market profitability, insurance demand, *reinsurance* coverage and all other relevant macro-economic variables; and
 - (c) the increased uncertainty in future profit following the loss referred to in 6.4(1), as well as the increasing degree of uncertainty relating to future taxable profit following that loss, as the projection horizon becomes longer.
- (3) The relevant requirements for the purpose of (1)(b)(ii) are:
- (a) a *firm* must not assume new business sales in excess of those projected for the purposes of the *firm's* business planning;
 - (b) a *firm* must not assume new business sales after the end of the *firm's* business planning horizon and, for this purpose, a *firm's* business planning horizon must not exceed five years;
 - (c) the rates of return on the *firm's* investments following the loss referred to in 6.4(1) must be assumed to be equal to the implicit returns of the forward rates derived from the *relevant risk-free interest rate term structure* obtained after that loss, unless the *firm* is able to demonstrate that returns in excess of those implicit returns are likely;
 - (d) where a *firm* sets a projection horizon for profits from new business that is longer than its business planning horizon, it must:
 - (i) set a finite projection horizon;
 - (ii) apply appropriate haircuts to the profits from new business projected beyond the business planning horizon;

(iii) assume that such haircuts increase the further into the future the profits are projected; and

(e) a firm must not apply assumptions that are more favourable than those used for valuation and utilisation of deferred tax assets in accordance with Valuation 11.

7 SIMPLIFICATION IN THE STANDARD FORMULA

...

7.2 (1) For the purposes of 7.1(1), a firm must determine whether the simplified calculation is proportionate to the nature, scale and complexity of the risks by carrying out an assessment which must include all of the following:

(a) an assessment of the nature, scale and complexity of the risks of the firm covered in the relevant module or sub-module;

(b) an evaluation in qualitative or quantitative terms, as appropriate, of the error introduced in the results of the simplified calculation due to any deviation between the following:

(i) the assumptions underlying the simplified calculation in relation to the risk;

(ii) the results of the assessment referred to in (a).

(2) Where the error referred to in 1(b) would lead to a misstatement of the SCR that could influence the decision-making or judgement of the user of the information relating to the SCR, the use of a simplified calculation by a firm will not be proportionate to the nature, scale and complexity of the risks that the firm faces and the firm must not use that simplified calculation, unless it produces an SCR which exceeds the SCR that results from the standard calculation.

7.3 A firm that is a captive insurer or captive reinsurer may use the simplified calculations set out in 7.4, 7.23, 7.25 and 7.27, where 7.2 is complied with and all of the following requirements are met:

(1) in relation to the insurance obligations of the firm, all insured persons and beneficiaries are legal entities of the group of which the firm is part;

(2) in relation to the reinsurance obligations of the firm, all insured persons and beneficiaries of the contracts of insurance underlying the reinsurance obligations are legal entities of the group of which the firm is part; and

(3) the insurance obligations and the contracts of insurance underlying the reinsurance obligations of the firm do not relate to any compulsory third-party liability insurance.

7.4 (1) Subject to 7.2 and 7.3, a firm that is a captive insurer or captive reinsurer may calculate the capital requirement for non-life premium and reserve risk in accordance with the following formula:

$$SCR_{nl\ prem\ res} = \sqrt{0.65 \cdot \sum_s NL_{(pr,s)}^2 + 0.35 \cdot (\sum_s NL_{(pr,s)})^2}$$

where s covers all segments set out in 3A3.

(2) For the purposes of (1), a firm must calculate the capital requirement for non-life premium and reserve risk of a particular segment s set out in 3A3 in accordance with the following formula:

$$NL_{pr,s} = 0.6 \cdot \sqrt{V^2_{(prem,s)} + V_{(prem,s)} \cdot V_{(res,s)} + V^2_{(res,s)}}$$

where:

- (a) $V_{(prem,s)}$ denotes the volume measure for *premium* risk of segment *s* calculated in accordance with 3A2.3; and
- (b) $V_{(res,s)}$ denotes the volume measure for reserve risk of a segment calculated in accordance with 3A2.6.

7.5 For the purposes of 3A6.1(1), subject to 7.2, a firm may determine the insurance policies for which discontinuance would result in an increase in technical provisions without the risk margin on the basis of groups of policies, provided that the grouping complies with the requirements set out in Technical Provisions – Further Requirements 20.1(2).

7.6 Subject to 7.2, a firm may calculate:

- (1) the sum insured for windstorm risk referred to in 3A9.6(2) and 3A9.8 on the basis of groups of risk zones provided that:
 - (a) each of the risk zones within a group must be situated within the same particular region set out in Annex V; and
 - (b) where the sum insured for windstorm risk referred to in 3A9.6(2) is calculated on the basis of a group of risk zones, the risk weight for windstorm risk referred to in 3A9.6(1) must be the risk weight for windstorm risk in the risk zone within that group with the highest risk weight for windstorm risk set out in Annex X;
- (2) the sum insured for earthquake risk referred to 3A11.3(2) and 3A11.5 on the basis of groups of risk zones, provided that:
 - (a) each of the risk zones within a group must be situated within the same particular region set out in Annex VI; and
 - (b) where the sum insured for earthquake risk referred to in 3A11.3(2) is calculated on the basis of a group of risk zones, the risk weight for earthquake risk referred to in 3A11.3(1) must be the risk weight for earthquake risk in the risk zone within that group with the highest risk weight for earthquake risk as set out in Annex X;
- (3) the sum insured for flood risk referred to in 3A12.6(2) and 3A12.8 on the basis of groups of risk zones, provided that:
 - (a) each of the risk zones within a group must be situated within the same particular region set out in Annex VII; and
 - (b) where the sum insured for flood risk referred to in 3A12.6(2) is calculated on the basis of a group of risk zones, the risk weight for flood risk referred to in 3A12.6(1) must be the risk weight for flood risk in the risk zone within that group with the highest risk weight for flood risk as set out in Annex X;
- (4) the sum insured for hail risk referred to in 3A13.6(2) and 3A13.8 on the basis of groups of risk zones, provided that:
 - (a) each of the risk zones within a group must be situated within the same particular region set out in Annex VIII; and
 - (b) where the sum insured for hail risk referred to in 3A13.6(2) is calculated on the basis of a group of risk zones, the risk weight for hail risk referred to in 3A13.6(1) must be the risk weight for hail risk in the risk zone within that group with the highest risk weight for hail risk as set out in Annex X; and
- (5) the weighted sum insured for subsidence risk referred to in 3A14.2 on the basis of groups of risk zones, provided that where the weighted sum insured referred to in 3A14.2 is calculated on the basis of a group of risk zones, the risk weight for subsidence risk

referred to in 3A14.2(1) must be the risk weight for subsidence risk in the risk zone within that group with the highest risk weight for subsidence risk as set out in Annex X.

- 7.7 (1) Subject to 7.2, a firm may calculate the capital requirement for fire risk referred to in 3A21.1 in accordance with the following formula:

$$SCR_{fire} = \max(SCR_{firei}; SCR_{firec}; SCR_{firer})$$

where:

- (a) SCR_{firei} denotes the largest industrial fire risk concentration;
- (b) SCR_{firec} denotes the largest commercial fire risk concentration; and
- (c) SCR_{firer} denotes the largest residential fire risk concentration.

- (2) A firm must calculate its largest industrial fire risk concentration in accordance with the following formula:

$$SCR_{firei} = \max(E_{1,i}; E_{2,i}; E_{3,i}; E_{4,i}; E_{5,i})$$

where $E_{k,i}$ denotes the total exposure within the perimeter of the k -th largest industrial fire risk exposure.

- (3) A firm must calculate its largest commercial fire risk concentration in accordance with the following formula:

$$SCR_{firec} = \max(E_{1,c}; E_{2,c}; E_{3,c}; E_{4,c}; E_{5,c})$$

where $E_{k,c}$ denotes the total exposure within the perimeter of the k -th largest commercial fire risk exposure.

- (4) A firm must calculate its largest residential fire risk concentration in accordance with the following formula:

$$SCR_{firer} = \max(E_{1,r}; E_{2,r}; E_{3,r}; E_{4,r}; E_{5,r}; \theta)$$

where:

- (a) $E_{k,r}$ denotes the total exposure within the perimeter of the k -th largest residential fire risk exposure; and
- (b) θ denotes the market share based residential fire risk exposure.

- (5) For the purposes of (2), (3) and (4), the total exposure within the perimeter of the k -th largest industrial, commercial or residential fire risk exposure of a firm is the sum insured by the firm with respect to a set of buildings that meets all of the following requirements:

- (a) in relation to each building, the firm has obligations in lines of business 7 and 19 which cover damage due to fire or explosion, including as a result of terrorist attacks; and
- (b) each building is partly or fully located within a radius of 200 metres around the industrial, commercial or residential building with the k -th highest sum insured after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

For the purposes of determining the sum insured with respect to a building, a firm must take into account all reinsurance contracts and special purpose vehicles that would pay out in case of insurance claims related to that building, other than reinsurance contracts and special purpose vehicles that are subject to conditions not related to that building, which must not be taken into account.

(6) A firm must calculate the market share based residential fire risk exposure in accordance with the following formula:

$$\theta = SI_{av} \cdot 500 \cdot \max(0.05; \max_c (MarketShare_c))$$

where:

- (a) SI_{av} is the average sum insured by the firm with respect to residential property;
- (b) c denotes all countries where the firm has obligations in lines of business 7 and 19 covering residential property; and
- (c) $MarketShare_c$ is the market share of the firm in country c related to obligations in those lines of business covering residential property.

7.8 Subject to 7.2, a firm may calculate the capital requirement for life mortality risk in accordance with the following formula:

$$SCR_{mortality} = 0.15 \cdot q \cdot \sum_{k=1}^n CAR_k \cdot \frac{(1-q)^{k-1}}{(1+i_k)^{k-0.5}}$$

where, with respect to insurance and reinsurance policies with a positive capital at risk:

- (a) CAR_k denotes the total capital at risk in year k , meaning the sum over all contracts of insurance of the higher of zero and the difference, in relation to each contract of insurance between the following amounts:
 - (i) the sum of:
 - A. the amount that the firm would pay in year k in the event of the death 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 expected present value of amounts not covered in A. that the firm would pay after year k in the event of the immediate death 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 best estimate of the corresponding insurance and reinsurance obligations in year k after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
- (b) q denotes the expected average mortality rate over all the insured persons and over all future years weighted by the sum insured;
- (c) n denotes the modified duration in years of payments payable on death included in the best estimate; and
- (d) i_k denotes the annualised spot rate for maturity k of the relevant risk-free interest rate term structure.

7.9 Subject to 7.2, a firm may calculate the capital requirement for life longevity risk in accordance with the following formula:

$$SCR_{longevity} = 0.2 \cdot q \cdot n \cdot 1.1^{(n-1)/2} \cdot BE_{long}$$

where, with respect to the policies referred to in 3B2.2:

- (a) q denotes the expected average mortality rate of the insured persons during the following 12 months weighted by the sum insured;
- (b) n denotes the modified duration in years of the payments to beneficiaries included in the best estimate; and

(c) BE_{long} denotes the *best estimate* of the insurance and *reinsurance* obligations subject to *longevity risk*.

7.10 Subject to 7.2, a *firm* may calculate the capital requirement for life *disability-morbidity risk* in accordance with the following formula:

$$SCR_{disability-morbidity} = 0.35 \cdot CAR_1 \cdot d_1 + 0.25 \cdot 1.1^{(n-3)/2} \cdot (n-1) \cdot CAR_2 \cdot d_2 + 0.2 \cdot 1.1^{(n-1)/2} \cdot t \cdot n \cdot BE_{dis}$$

where, with respect to insurance and *reinsurance policies* with a positive capital at risk:

(a) CAR_1 denotes the total capital at risk, meaning the sum over all *contracts of insurance* of the higher of zero and the difference between the following amounts:

(i) the sum of:

A. 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

B. the expected present value of amounts not covered in A. 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

(ii) the *best estimate* of the corresponding insurance and *reinsurance* obligations after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*;

(b) CAR_2 denotes the total capital at risk as defined in (a) after 12 *months*;

(c) d_1 denotes the expected average disability-morbidity rate during the following 12 *months* weighted by the sum insured;

(d) d_2 denotes the expected average disability-morbidity rate in the 12 *months* after the following 12 *months* weighted by the sum insured;

(e) n denotes the modified duration of the payments on disability-morbidity included in the *best estimate*;

(f) t denotes the expected termination rates during the following 12 *months*; and

(g) BE_{dis} denotes the *best estimate* of insurance and *reinsurance* obligations subject to *disability-morbidity risk*.

7.11 Subject to 7.2, a *firm* may calculate the capital requirement for life *expense risk* in accordance with the following formula:

$$SCR_{expenses} = 0.1 \cdot EI \cdot n + EI \cdot \left(\left(\frac{1}{i + 0.01} \right) \cdot ((1 + i + 0.01)^n - 1) - \frac{1}{i} ((1 + i)^n - 1) \right)$$

where:

(a) EI denotes the amount of expenses incurred in servicing *long-term insurance* or *reinsurance obligations* other than *health insurance obligations* and *health reinsurance obligations* during the last year;

(b) n denotes the modified duration in years of the cash-flows included in the *best estimate* of those obligations; and

(c) i denotes the weighted average inflation rate included in the calculation of the *best estimate* of those obligations, where the weights are based on the present value of expenses included in the calculation of the *best estimate* for servicing existing *long-term*

insurance and reinsurance obligations.

- 7.12 (1) Subject to 7.2, a firm may calculate the capital requirement for the risk of a permanent increase in lapse rates in accordance with the following formula:

$$Lapse_{up} = 0.5 \cdot l_{up} \cdot n_{up} \cdot S_{up}$$

where:

- (a) l_{up} denotes the higher of the average lapse rate of the policies with positive surrender strains and 67%;
 - (b) n_{up} denotes the average period in years over which the policies with positive surrender strains run off; and
 - (c) S_{up} denotes the sum of positive surrender strains referred to in (3).
- (2) Subject to 7.2, a firm may calculate the capital requirement for the risk of a permanent decrease in lapse rates in accordance with the following formula:
- $$Lapse_{down} = 0.5 \cdot l_{down} \cdot n_{down} \cdot S_{down}$$
- where:
- (a) l_{down} denotes the higher of the average lapse rate of the policies with negative surrender strains and 40%;
 - (b) n_{down} denotes the average period in years over which the policies with negative surrender strains run off; and
 - (c) S_{down} denotes the sum of negative surrender strains referred to in (3).
- (3) The surrender strain of an insurance policy is the difference between the following:
- (a) the amount currently payable by the firm on discontinuance by the policyholder, net of any amounts recoverable from policyholders or intermediaries; and
 - (b) the amount of technical provisions without the risk margin.

- 7.13 Subject to 7.2, a firm may calculate each of the following capital requirements on the basis of groups of policies, provided that the grouping complies with the requirements set out in Technical Provisions – Further Requirements 20.1(2):

- (1) the capital requirement for the risk of a permanent increase in lapse rates referred to in 3B6.2;
- (2) the capital requirement for the risk of a permanent decrease in lapse rates referred to in 3B6.3; and
- (3) the capital requirement for mass lapse risk referred to in 3B6.6.

- 7.14 Subject to 7.2, a firm may calculate the capital requirement for life-catastrophe risk in accordance with the following formula:

$$SCR_{life-catastrophe} = \sum_i 0.0015 \cdot CAR_i$$

where:

- (a) the sum includes all policies with a positive capital at risk; and
- (b) CAR_i denotes the capital at risk of the policy i , meaning the higher of zero and the difference between the following amounts:
 - (i) the sum of:

- A. the amount that the *firm* would currently pay in the event of the death 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 expected present value of amounts not covered in A. that the *firm* would pay in the future in the event of the immediate death 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 *best estimate* of the corresponding insurance and *reinsurance* obligations after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*.

7.15 For the purposes of 3C7.1(1), subject to 7.2, a *firm* may determine the insurance *policies* for which *discontinuance* would result in an increase in *technical provisions* without the *risk margin* on the basis of groups of *policies*, provided that the grouping complies with the requirements set out in Technical Provisions – Further Requirements 20.1(2).

7.16 Subject to 7.2, a *firm* may calculate the capital requirement for health *mortality risk* in accordance with the following formula:

$$SCR_{health-mortality} = 0.15 \cdot q \cdot \sum_{k=1}^n CAR_k \cdot \frac{(1-q)^{k-1}}{(1+i_k)^{k-0.5}}$$

where, with respect to insurance and *reinsurance policies* with a positive capital at risk:

(a) CAR_k denotes the total capital at risk in year k , meaning the sum over all *contracts of insurance* of the higher of zero and the difference, in relation to each *contract of insurance*, between the following amounts:

(i) the sum of:

- A. the amount that the *firm* would pay in year k in the event of the death 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 expected present value of amounts not covered in A. that the *firm* would pay after year k in the event of the immediate death 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 *best estimate* of the corresponding insurance and *reinsurance* obligations in year k after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*;

(b) q denotes the expected average mortality rate over all insured *persons* and over all future years weighted by the sum insured;

(c) n denotes the modified duration in years of payments payable on death included in the *best estimate*; and

(d) i_k denotes the annualised spot rate for maturity k of the *relevant risk-free interest rate term structure*.

7.17 Subject to 7.2, a *firm* may calculate the capital requirement for health *longevity risk* in accordance with the following formula:

$$SCR_{health-longevity} = 0.2 \cdot q \cdot n \cdot 1.1^{(n-1)/2} \cdot BE_{long}$$

where, with respect to the *policies* referred to in 3C10.2:

(a) q denotes the expected average mortality rate of the insured *persons* during the following

12 months weighted by the sum insured;

(b) n denotes the modified duration in years of the payments to *beneficiaries* included in the *best estimate*; and

(c) BE_{long} denotes the *best estimate* of the obligations subject to health *longevity risk*.

7.18 Subject to 7.2, a *firm* may calculate the capital requirement for medical expense *disability-morbidity risk* in accordance with the following formula:

$$SCR_{medical\ expense} = 0.05 \cdot MP \cdot n + MP \cdot \left(\left(\frac{1}{i + 0.01} \right) ((1 + i + 0.01)^n - 1) - \frac{1}{i} ((1 + i)^n - 1) \right)$$

where:

(a) MP denotes the amount of medical payments on *medical expense insurance obligations* or *medical expense reinsurance obligations* during the last year;

(b) n denotes the modified duration in years of the cash-flows included in the *best estimate* of those obligations; and

(c) i denotes the average rate of inflation on medical payments included in the calculation of the *best estimate* of those obligations, where the weights are based on the present value of medical payments included in the calculation of the *best estimate* of those obligations.

7.19 Subject to 7.2, a *firm* may calculate the capital requirement for income protection *disability-morbidity risk* in accordance with the following formula:

$$SCR_{income-protection-disability-morbidity} = 0.35 \cdot CAR_1 \cdot d_1 + 0.25 \cdot 1.1^{(n-3)/2} \cdot (n-1) \cdot CAR_2 \cdot d_2 + 0.2 \cdot 1.1^{(n-1)/2} \cdot t \cdot n \cdot BE_{dis}$$

where, with respect to insurance and *reinsurance policies* with a positive capital at risk:

(a) CAR_1 denotes the total capital at risk, meaning the sum over all *contracts of insurance* of the higher of zero and the difference between the following amounts:

(i) the sum of:

A. 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

B. the expected present value of amounts not covered in A. 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*;

(ii) the *best estimate* of the corresponding insurance and *reinsurance* obligations after deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*;

(b) CAR_2 denotes the total capital at risk as defined in (a) after 12 *months*;

(c) d_1 denotes the expected average disability-morbidity rate during the following 12 *months* weighted by the sum insured;

(d) d_2 denotes the expected average disability-morbidity rate in the 12 *months* after the following 12 *months* weighted by the sum insured;

(e) n denotes the modified duration of the payments on disability-morbidity included in the *best estimate*;

(f) t denotes the expected termination rates during the following 12 *months*; and

(g) BE_{dis} denotes the *best estimate* of obligations subject to *disability-morbidity risk*.

7.20 Subject to 7.2, a *firm* may calculate the capital requirement for health *expense risk* in accordance with the following formula:

$$SCR_{health-expense} = 0.1 \cdot EI \cdot n + EI \cdot \left(\left(\frac{1}{i + 0.01} \right) \cdot ((1 + i + 0.01)^n - 1) - \frac{1}{i} ((1 + i)^n - 1) \right)$$

where:

- (a) EI denotes the amount of expenses incurred in servicing *health insurance obligations* and *health reinsurance obligations* during the last year;
- (b) n denotes the modified duration in years of the cash-flows included in the *best estimate* of those obligations; and
- (c) i denotes the weighted average inflation rate included in the calculation of the *best estimate* of those obligations, weighted by the present value of expenses included in the calculation of the *best estimate* for servicing existing *health insurance obligations* and *health reinsurance obligations*.

7.21 (1) Subject to 7.2, a *firm* may calculate the capital requirement for the risk of a permanent increase in lapse rates referred to in 3C16.1(1) in accordance with the following formula:

$$Lapse_{up} = 0.5 \cdot l_{up} \cdot n_{up} \cdot S_{up}$$

where:

- (a) l_{up} denotes the higher of the average lapse rate of the *policies* with positive *surrender strains* and 83%;
 - (b) n_{up} denotes the average period in years over which the *policies* with positive *surrender strains* run off; and
 - (c) S_{up} denotes the sum of positive *surrender strains* referred to in (3).
- (2) Subject to 7.2, a *firm* may calculate the capital requirement for the risk of a permanent decrease in lapse rates referred to in 3C16.1(2) in accordance with the following formula:
- $$Lapse_{down} = 0.5 \cdot l_{down} \cdot n_{down} \cdot S_{down}$$
- where:
- (a) l_{down} denotes the average lapse rate of the *policies* with negative *surrender strains*;
 - (b) n_{down} denotes the average period in years over which the *policies* with negative *surrender strains* run off; and
 - (c) S_{down} denotes the sum of negative *surrender strains* referred to in (3).
- (3) The *surrender strain* of an insurance *policy* is the difference between the following:
- (a) the amount currently payable by the *firm* on *discontinuance* by the *policyholder*, net of any amounts recoverable from *policyholders* or intermediaries; and
 - (b) the amount of *technical provisions* without the *risk margin*.

7.22 Subject to 7.2, a *firm* may calculate each of the following capital requirements on the basis of groups of *policies*, provided that the grouping complies with the requirements set out in Technical Provisions – Further Requirements 20.1(2):

- (1) the capital requirement for the risk of a permanent increase in *SLT health* lapse rates referred to in 3C16.2;
- (2) the capital requirement for the risk of a permanent decrease in *SLT health* lapse rates

referred to in 3C16.3; and

(3) the capital requirement for *SLT health mass lapse risk* referred to in 3C16.6.

7.23 (1) Subject to 7.2 and 7.3, a *firm* that is a *captive insurer* or *captive reinsurer* may calculate the capital requirement for *interest-rate risk* referred to in 3D4 as follows:

- (a) the sum, for each currency, of the capital requirements for the risk of an increase in the term structure of interest rates as set out in (2); and
- (b) the sum, for each currency, of the capital requirements for the risk of a decrease in the term structure of interest rates as set out in (3).

(2) For the purposes of (1)(a), a *firm* must calculate the capital requirement for the risk of an increase in the term structure of interest rates for a given currency in accordance with the following formula:

$$IR_{up} = \sum_i MVAL_i \cdot dur_i \cdot rate_i \cdot stress_{(i,up)} - \sum_{lob} BE_{lob} \cdot dur_{lob} \cdot rate_{lob} \cdot stress_{(lob,up)}$$

where:

- (a) the first sum covers all maturity intervals *i* set out in (4);
- (b) $MVAL_i$ denotes the value in accordance with Valuation 2.1 to 2.2 of assets less liabilities other than *technical provisions* for maturity interval *i*;
- (c) dur_i denotes the simplified duration of maturity interval *i*;
- (d) $rate_i$ denotes the relevant risk-free rate for the simplified duration of maturity interval *i*;
- (e) $stress_{(i,up)}$ denotes the relative upward stress of the interest rate for simplified duration of maturity interval *i*;
- (f) the second sum covers all *lines of business*;
- (g) BE_{lob} denotes the *best estimate* for *line of business lob*;
- (h) dur_{lob} denotes the modified duration of the *best estimate* in *line of business lob*;
- (i) $rate_{lob}$ denotes the relevant risk-free rate for modified duration in *line of business lob*; and
- (j) $stress_{(lob,up)}$ denotes the relative upward stress of the interest rate for the modified duration dur_{lob} .

(3) For the purposes of (1)(b), a *firm* must calculate the capital requirement for the risk of a decrease in the term structure of interest rates for a given currency in accordance with the following formula:

$$IR_{down} = \sum_i MVAL_i \cdot dur_i \cdot rate_i \cdot stress_{(i,down)} - \sum_{lob} BE_{lob} \cdot dur_{lob} \cdot rate_{lob} \cdot stress_{(lob,down)}$$

where:

- (a) the first sum covers all maturity intervals *i* set out in (4);
- (b) $MVAL_i$ denotes the value in accordance with Valuation 2.1 to 2.2 of assets less liabilities other than *technical provisions* for maturity interval *i*;
- (c) dur_i denotes the simplified duration of maturity interval *i*;
- (d) $rate_i$ denotes the relevant risk-free rate for the simplified duration of maturity interval *i*;
- (e) $stress_{(i,down)}$ denotes the relative downward stress of the interest rate for simplified duration of maturity interval *i*;

- (f) the second sum covers all *lines of business*:
 - (g) BE_{lob} denotes the *best estimate* for *line of business lob*:
 - (h) dur_{lob} denotes the modified duration of the *best estimate* in *line of business lob*:
 - (i) $rate_{lob}$ denotes the relevant risk-free rate for modified duration in *line of business lob*:
and
 - (j) $stress_{(lob, down)}$ denotes the relative downward stress of the interest rate for modified duration dur_{lob} .
- (4) The maturity intervals i and the simplified duration dur_i referred to in (2)(a), 2(c), (3)(a) and 3(c) must be as follows:
- (a) up to the maturity of one year, the simplified duration must be 0.5 years;
 - (b) between maturities of one and three years, the simplified duration must be two years;
 - (c) between maturities of three and five years, the simplified duration must be four years;
 - (d) between maturities of five and 10 years, the simplified duration must be seven years;
and
 - (e) from the maturity of 10 years onwards, the simplified duration must be 12 years.

7.24 (1) Subject to 7.2, a *firm* may calculate the capital requirement for *spread risk* referred to in 3D17 in accordance with the following formula:

$$SCR_{bonds} = MV^{bonds} \cdot \left(\sum_i \%MV_i^{bonds} \cdot stress_i + \%MV_{norating}^{bonds} \cdot \min[dur_{norating} \cdot 0.03; 1] \right) + \Delta Liab_{ul}$$

where:

- (a) SCR_{bonds} denotes the capital requirement for *spread risk* on bonds and loans;
- (b) MV^{bonds} denotes the value in accordance with Valuation 2.1 to 2.2 of the assets subject to capital requirements for *spread risk* on bonds and loans;
- (c) $\%MV_i^{bonds}$ denotes the proportion of the portfolio of the assets subject to a capital requirement for *spread risk* on bonds and loans with *credit quality step i*, where a credit assessment by a nominated *external credit assessment institution* is available for those assets;
- (d) $\%MV_{norating}^{bonds}$ denotes the proportion of the portfolio of the assets subject to a capital requirement for *spread risk* on bonds and loans for which no credit assessment by a nominated *external credit assessment institution* is available;
- (e) dur_i and $dur_{norating}$ denote the modified duration denominated in years of the assets subject to a capital requirement for *spread risk* on bonds and loans where no credit assessment by a nominated *external credit assessment institution* is available;
- (f) $stress_i$ denotes a function of the *credit quality step i* and of the modified duration denominated in years of the assets subject to a capital requirement for *spread risk* on bonds and loans with *credit quality step i*, set out in (2); and
- (g) $\Delta Liab_{ul}$ denotes the increase in the *technical provisions* without *risk margin* for *policies* where the *policyholders* bear the investment risk with embedded options and guarantees that would result from an instantaneous decrease in the value of the assets subject to the capital requirement for *spread risk* on bonds of:

$$MV^{bonds} \cdot \left(\sum_i \%MV_i^{bonds} \cdot stress_i + \%MV_{norating}^{bonds} \cdot \min[duration_{norating} \cdot 0.03; 1] \right)$$

- (2) $stress_i$ referred to in (1)(f), for each *credit quality step i*, must be equal to: $duration_i \cdot b_i$ where $duration_i$ is the modified duration denominated in years of the assets subject to a capital requirement for *spread risk* on bonds and loans with *credit quality step i*, and b_i is determined in accordance with the following table:

Credit quality step i	0	1	2	3	4	5	6
b_i	0.9 %	1.1 %	1.4 %	2.5 %	4.5 %	7.5 %	7.5 %

- (3) $duration_{norating}$ referred to in (1)(e) and $duration_i$ referred to in (2) must not be lower than one year.

7.25 Subject to 7.2 and 7.3, a *firm* that is a *captive insurer* or *captive reinsurer* may base the calculation of the capital requirement for *spread risk* referred to in 3D17 on the assumption that all assets are assigned to *credit quality step 3*.

7.26 Subject to 7.2, a *firm* may assign a bond other than those to be included in the calculations under paragraphs 3D24.2 to 3D24.21 a risk factor $stress_i$ equivalent to that for *credit quality step 3* for the purposes of 3D17.3 and assign the bond to *credit quality step 3* for the purpose of calculating the weighted average *credit quality step* in accordance with 3D26.4, provided that all of the following requirements are met:

- (1) credit assessments from a nominated *external credit assessment institution* are available for at least 80% of the total value of the bonds other than those to be included in the calculations under 3D24.2 to 3D24.21;
- (2) a credit assessment by a nominated *external credit assessment institution* is not available for the bond in question;
- (3) the bond in question provides a fixed redemption payment on or before the date of maturity, in addition to regular fixed or floating rate interest payments;
- (4) the bond in question is not a structured note or collateralised security as referred to in the CIC table set out in the Section IR.06.02 instructions referred to in Reporting 10; and
- (5) the bond in question does not cover liabilities that provide *long-term insurance obligations* with profit participation, nor does it cover unit-linked liabilities or *index-linked liabilities*, nor liabilities where a *matching adjustment* is applied.

7.27 Subject to 7.2 and 7.3, a *firm* that is a *captive insurer* or *captive reinsurer* may use all of the following assumptions for the calculation of the capital requirement for concentration risk:

- (1) Intra-group asset *pooling arrangements* of the *firm* may be exempted from the calculation base referred to in 3D28.2 to the extent that there exist legally enforceable contractual terms which ensure that the liabilities of the *firm* will be offset by the intra-group exposures it holds against other entities of the *group*.
- (2) The relative excess exposure threshold referred to in 3D28.1(c) must be equal to 15% for the following single name exposures:
 - (a) exposures to *credit institutions* that do not belong to the same *group* and that have been assigned to the *credit quality step 2*; and
 - (b) exposures to entities of the *group* that manage the cash of the *firm* that have been assigned to the *credit quality step 2*.

7.28 (1) Subject to 7.2 and where the best estimate of amounts recoverable from a *reinsurance* arrangement or *securitisation* and the corresponding debtors is not negative, a *firm* may calculate the risk-mitigating effect on *underwriting risk* of that *reinsurance* arrangement or *securitisation* referred to in 3E9 in accordance with the following formula:

$$RM_{re,all} \cdot \frac{Recoverables_i}{Recoverables_{all}}$$

where:

- (a) $RM_{re,all}$ denotes the risk-mitigating effect on *underwriting risk* of the *reinsurance* arrangements and *securitisations* for all *counterparties* calculated in accordance with (2); and
 - (b) $Recoverables_i$ denotes the best estimate of amounts recoverable from the *reinsurance* arrangement or *securitisation* and the corresponding debtors for *counterparty i* and $Recoverables_{all}$ denotes the best estimate of amounts recoverable from the *reinsurance* arrangements and *securitisations* and the corresponding debtors for all *counterparties*.
- (2) A *firm* may calculate the risk-mitigating effect on *underwriting risk* of the *reinsurance* arrangements and *securitisations* for all *counterparties* referred to in (1) as the difference between the following capital requirements:
- (a) the hypothetical capital requirement for *underwriting risk* of the *firm* if none of the *reinsurance* arrangements and *securitisations* exist; and
 - (b) the capital requirement for *underwriting risk* of the *firm*.

7.29 Subject to 7.2 and where the best estimate of amounts recoverable from a proportional *reinsurance* arrangement and the corresponding debtors for a *counterparty i* is not negative, a *firm* may calculate the risk-mitigating effect on *underwriting risk j* of the proportional *reinsurance* arrangement for *counterparty i* referred to 3E9 in accordance with the following formula:

$$\frac{Recoverables_i}{BE - Recoverables_{all}} \cdot SCR_j$$

where:

- (1) BE denotes the *best estimate* of obligations gross of the amounts recoverable;
 - (2) $Recoverables_i$ denotes the best estimate of amounts recoverable from the proportional *reinsurance* arrangement and the corresponding debtors for *counterparty i*;
 - (3) $Recoverables_{all}$ denotes the best estimate of amounts recoverable from the proportional *reinsurance* arrangements and the corresponding debtors for all *counterparties*; and
 - (4) SCR_j denotes the capital requirement for *underwriting risk j* of the *firm*.
- 7.30 Subject to 7.2, a *firm* may use the following simplified calculations for the purposes of 3E6, 3E7 and 3E8:

- (1) The *best estimate* referred to in 3E7.1(d) may be calculated in accordance with the following formula:

$$BE_C = \frac{P_C}{P_U} \cdot BE_U$$

where:

- (a) BE_U denotes the *best estimate* of the liability ceded to the *pooling arrangement* by the *firm*, net of any amounts reinsured with *counterparties* external to the *pooling*

arrangement;

(b) P_C denotes the *counterparty* member's share of the risk according to the terms of the *pooling arrangement*; and

(c) P_U denotes the *firm's* share of the risk according to the terms of the *pooling arrangement*.

(2) The *best estimate* referred to in 3E8.1(c) may be calculated in accordance with the following formula:

$$BE_{CE} = \frac{1}{P_U} \cdot BE_{CEP}$$

where:

(a) BE_{CEP} denotes the *best estimate* of the liability ceded to the external *counterparty* by the *pooling arrangement*, in relation to risk ceded to the *pooling arrangement* by the *firm*; and

(b) P_U denotes the *firm's* share of the risk according to the terms of the *pooling arrangement*.

(3) A *firm* may calculate the risk-mitigating effect referred to in 3E8.1(d) in accordance with the following formula:

$$\Delta RM_{CE} = \frac{BE_{CE}}{\sum_{CE} BE_{CE}} \cdot \Delta RM_{CEP}$$

where:

(a) BE_{CE} denotes the *best estimate* of the liability ceded to the external *counterparty* by the *pooling arrangement* as a whole; and

(b) ΔRM_{CEP} denotes the contribution of all external *counterparties* to the risk-mitigating effect of the *pooling arrangement* on the *underwriting risk* of the *firm*.

(4) The *counterparty pool* members and the *counterparties* external to the *pooling arrangement* may be grouped according to the credit assessment by a nominated *external credit assessment institution*, provided there are separate groupings for *pool exposure of type A*, *pool exposure of type B* and *pool exposure of type C*.

7.31 Subject to 7.2, a *firm* may calculate the loss-given-default set out in 3E4, including the risk-mitigating effect on *underwriting risk* and *market risk* and the risk-adjusted value of collateral provided by way of a *collateral arrangement*, for a group of single name exposures provided that the group of single name exposures are assigned the highest probability of default assigned to single name exposures included in the group in accordance with 3E12.

7.32 Subject to 7.2, a *firm* may calculate the risk-mitigating effect on *underwriting risk* and *market risk* of a *reinsurance arrangement*, *securitisation* or *derivative* referred to in 3E9 as the difference between the following capital requirements:

(1) the sum of the hypothetical capital requirement for the sub-modules of the *underwriting risk* and *market risk* modules of the *firm*, calculated in accordance with this Part but as if the *reinsurance arrangement*, *securitisation* or *derivative* did not exist; and

(2) the sum of the capital requirements for the sub-modules of the *underwriting risk* and *market risk* modules of the *firm*.

7.33 For the purposes of 3E9, subject to 7.2 and where the *reinsurance arrangement*, *securitisation* or *derivative* covers obligations from only one of the segments (segment *s*) set out in 3A3 or, as applicable, 3C4, a *firm* may calculate the risk-mitigating effect of that *reinsurance arrangement*.

securitisation or derivative on its underwriting risk in accordance with the following formula:

$$\sqrt{(SCR_{CAT}^{hyp} - SCR_{CAT}^{without})^2 + (3 \cdot \sigma_s \cdot (P_s^{hyp} - P_s^{without} + Recoverables))^2 + 1.5 \cdot \sigma_s \cdot (P_s^{hyp} - P_s^{without} + Recoverables) \cdot (SCR_{CAT}^{hyp} - SCR_{CAT}^{without})}$$

where:

- (1) SCR_{CAT}^{hyp} denotes the hypothetical capital requirement for the *non-life catastrophe risk* sub-module referred to in 3A7.2 or, as applicable, the hypothetical capital requirement for the *health catastrophe risk* sub-module referred to in 3C17, that would apply if the *reinsurance arrangement, securitisation or derivative* did not exist;
 - (2) $SCR_{CAT}^{without}$ denotes the capital requirement for the *non-life catastrophe risk* sub-module referred to in 3A7.2 or, as applicable, the capital requirement for the *health catastrophe risk* sub-module referred to in 3C17;
 - (3) σ_s denotes the standard deviation for non-life *premium* risk of segment *s* determined in accordance with 3A4.3 and 3A4.4 or, as applicable, the standard deviation for the *NSLT health premium* risk of segment *s* determined in accordance with 3C5.3;
 - (4) P_s^{hyp} denotes the hypothetical volume measure for *premium* risk of segment *s* determined in accordance with 3A2.3 or 3A2.4 or, as applicable, 3C3.3 or 3C3.4 that would apply if the *reinsurance arrangement, securitisation or derivative* did not exist;
 - (5) $P_s^{without}$ denotes the volume measure for *premium* risk of segment *s* determined in accordance with 3A2.3 or 3A2.4 or, as applicable, 3C3.3 or 3C3.4; and
 - (6) *Recoverables* denotes the best estimate of amounts recoverable from the *reinsurance arrangement, securitisation or derivative* and the corresponding debtors.
- 7.34 (1) Subject to 7.2, and where the *counterparty* requirement and the third party requirement referred to in 3E10.1 are both met, a *firm* may, for the purposes of 3E10, calculate the risk-adjusted value of a collateral provided by way of a *collateral arrangement* under which collateral is provided by way of security, as 85% of the value of the assets held as collateral, valued in accordance with Valuation 2.1 to 2.2.
- (2) Subject to 7.2 and 3G8, and where the *counterparty* requirement referred to in 3E10.1 is met and the third party requirement referred to in 3E10.1 is not met, a *firm* may, for the purposes of 3E10, calculate the risk-adjusted value of a collateral provided by way of a *collateral arrangement* under which collateral is provided by way of security, as 75% of the value of the assets held as collateral, valued in accordance with Valuation 2.1 to 2.2.
- 7.35 Subject to 7.2, a *firm* may calculate the loss-given-default on a *reinsurance arrangement or insurance securitisation* referred to in 3E4.3 in accordance with the following formula:

$$LGD = \max[90\% \cdot (Recoverables + 50\% \cdot RM_{re}) - F \cdot Collateral; 0]$$

where:

- (1) *Recoverables* denotes the best estimate of amounts recoverable from the *reinsurance arrangement or insurance securitisation* and the corresponding debtors;
- (2) RM_{re} denotes the risk-mitigating effect on *underwriting risk* of the *reinsurance arrangement or securitisation*;
- (3) *Collateral* denotes the risk-adjusted value of collateral provided by way of a *collateral arrangement* in relation to the *reinsurance arrangement or securitisation*; and
- (4) *F* denotes a factor to take into account the economic effect of the *collateral arrangement* in relation to the *reinsurance arrangement or securitisation* in case of any credit event related to the *counterparty*, determined in accordance with 3E10.7.

7.36 Subject to 7.2 and where the standard deviation of the loss distribution of type 1 exposures, as determined in accordance with 3E13.4 is lower than or equal to 20% of the total loss-given default on all type 1 exposures referred to in 3.13 to 3.19, a firm may calculate the capital requirement for counterparty default risk referred to in 3E13.1 in accordance with the following formula:

$$SCR_{def,1} = 5 \cdot \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures as determined in accordance with 3E13.4.

...

9 RING-FENCED FUNDS AND MATCHING ADJUSTMENT PORTFOLIOS

9.1 A firm must calculate the adjustment in respect of any ring-fenced fund or matching adjustment portfolio referred to in 2.2 as follows:

- (1) the firm must calculate a notional SCR for each ring-fenced fund and each matching adjustment portfolio, as well as for the remaining part of the firm, in the same manner as if each of those ring-fenced funds, each of those matching adjustment portfolios and the remaining part of the firm were separate firms;
- (2) the firm must calculate its SCR as the sum of the notional SCRs for each of its ring-fenced funds, each of its matching adjustment portfolios and for the remaining part of the firm;
- (3) subject to (4), where the calculation of the capital requirement for a risk module or sub-module of the basic SCR is based on the impact of a scenario on the firm's basic own funds, the firm must calculate the impact of the scenario on its basic own funds at the level of each ring-fenced fund, each matching adjustment portfolio and the remaining part of the firm;
- (4) the basic own funds at the level of each ring-fenced fund or each matching adjustment portfolio must, for the purposes of (3), only include restricted own funds;
- (5) where profit participation arrangements exist in respect of any insurance and reinsurance obligations within a ring-fenced fund, the firm must apply the following approach:
 - (a) where the calculation referred to in (3) would result in an increase in the basic own funds at the level of the ring-fenced fund, the estimated increase in those basic own funds must, in order to reflect the existence of those profit participation arrangements in the ring-fenced fund, be adjusted by an amount equal to the increase in technical provisions resulting from the increase in future discretionary benefits that the firm would expect to pay to policyholders in that scenario;
 - (b) where the calculation referred to in (3) would result in a decrease in the basic own funds at the level of the ring-fenced fund, the estimated decrease in those basic own funds for the calculation of the net basic SCR as referred to in 6.3(2), must, subject to (c), be adjusted by an amount equal to the reduction in future discretionary benefits that the firm would expect to pay to policyholders in that scenario;
 - (c) the amount of the adjustment referred to in (b) must not exceed the amount of future discretionary benefits that are included in the firm's technical provisions in respect of that ring-fenced fund.
- (6) notwithstanding (1), the firm must calculate the notional SCR for each ring-fenced fund and each matching adjustment portfolio using the scenario-based calculations under which the basic own funds of the firm as a whole are most negatively affected.

- (7) for the purposes of determining the scenario under which *basic own funds* are most negatively affected for the *firm* as a whole, the *firm* must:
- (a) calculate the sum of the results of the impacts of the scenarios on the *basic own funds* at the level of each *ring-fenced fund* and each *matching adjustment portfolio*, in accordance with (3) and (5); and
 - (b) add sums at the level of each *ring-fenced fund* and each *matching adjustment portfolio* to one another and to the results of the impact of the scenarios on the *basic own funds* in the remaining part of the *firm*.
- (8) the *firm* must determine the notional *SCR* for each *ring-fenced fund* and each *matching adjustment portfolio* by aggregating the capital requirements for each sub-module and risk module of the *basic SCR*.
- (9) notwithstanding 3.4, the *firm* must not allow for *diversification effects* between any, or a combination of, the following:
- (a) its *ring-fenced funds*;
 - (b) its *matching adjustment portfolios*; or
 - (c) the remaining part of the *firm*.

Annex P

Solvency Capital Requirement – Undertaking Specific Parameters Part

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

Part

SOLVENCY CAPITAL REQUIREMENT – UNDERTAKING SPECIFIC PARAMETERS

Chapter content

APPLICATION AND DEFINITIONS

UNDERTAKING SPECIFIC PARAMETERS

DATA CRITERIA

PREMIUM RISK METHOD

RESERVE RISK METHOD 1

RESERVE RISK METHOD 2

REVISION RISK METHOD

NON-PROPORTIONAL REINSURANCE METHOD 1

NON-PROPORTIONAL REINSURANCE METHOD 2

CREDIBILITY FACTOR

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

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

1.2 In this Part, the following definitions shall apply:

accident year

means, with respect to a payment for an insurance or *reinsurance* claim, the year in which the insured event that gave rise to that claim took place.

adjustment factor for non-proportional reinsurance (non-life)

means the adjustment factor for non-proportional *reinsurance* referred to in Solvency Capital Requirement – Standard Formula 3A4.3 and 3A4.4.

adjustment factor for non-proportional reinsurance (NSLT health)

means the adjustment factor for non-proportional *reinsurance* referred to in Solvency Capital Requirement – Standard Formula 3C5.3.

aggregated losses

for the purposes of 4, means the payments made and the *best estimates* of the provision for insurance and *reinsurance* claims outstanding in *segment s* after the first *development year* of the *accident year* of those claims.

credibility factor

means the applicable credibility factor determined in accordance with 10.

cumulative claims amounts

means the cumulative payment amounts for insurance and *reinsurance* claims in *segment s*.

development year

means, with respect to a payment for an insurance or *reinsurance* claim, the difference between the year of that payment and the *accident year* of that payment.

financial year

means, with respect to a payment for an insurance or *reinsurance* claim, the year in which this payment took place.

increase in the amount of annuity benefits (health)

means the increase in the amount of annuity benefits referred to in Solvency Capital Requirement - Standard Formula 3C15.

increase in the amount of annuity benefits (life)

means the increase in the amount of annuity benefits referred to in Solvency Capital Requirement - Standard Formula 3B5.

non-proportional reinsurance method 1

means the method set out in 8.

non-proportional reinsurance method 2

means the method set out in 9.

premium risk method

means the method set out in 4.

recognisable excess of loss reinsurance contract

- (1) means an excess of loss *reinsurance contract* which:
 - (a) provides for complete compensation up to a specified limit or without limit for losses of the cedant that relate either to single insurance claims, or to all insurance claims under the same *contract of insurance* during a specified time period, and that are larger than a specified retention;
 - (b) covers all insurance claims that the *firm* may incur in the segment or homogenous risk groups within the segment during the following 12 *months*;
 - (c) allows for a sufficient number of reinstatements so as to ensure that all claims of multiple events incurred during the following *months* are covered; and
 - (d) complies with Solvency Capital Requirement - Standard Formula 3G2, 3G3, 3G5 and 3G7; and
- (2) includes:
 - (a) arrangements with *special purpose vehicles* that provide risk transfer which is equivalent to that referred to in (1) to (4); and
 - (b) a combination of *reinsurance contracts* (which may be considered as one recognisable excess of loss *reinsurance contract*) where a *firm* has concluded several excess of loss *reinsurance contracts* that:
 - (i) individually meet the requirement set out in (4); and
 - (ii) in combination meet the requirements set out in (1) to (3).

recognisable stop loss reinsurance contract

- (1) means a stop loss *reinsurance contract* which:
 - (a) provides for complete compensation up to a specified limit or without limit for aggregated losses of the cedant that relate to all insurance claims in the segment or homogeneous risk groups within the segment during a specified time period and that are larger than a specified retention; and
 - (b) covers all insurance claims that the *firm* may incur in the segment or homogenous risk groups within the segment during the following 12 *months*;
 - (c) allows for a sufficient number of reinstatements so as to ensure that all claims of multiple events incurred during the following *months* are covered; and
 - (d) complies with Solvency Capital Requirement - Standard Formula 3G2, 3G3, 3G5 and 3G7; and
- (2) includes:
 - (a) arrangements with *special purpose vehicles* that provide risk transfer which is equivalent to that referred to in (1) to (4); and
 - (b) a combination of *reinsurance contracts* (which may be considered as one recognisable

stop loss *reinsurance contract*) where a *firm* has concluded several stop loss *reinsurance contracts* that:

- (i) individually meet the requirement set out in (4); and
- (ii) in combination meet the requirements set out in (1) to (3).

reporting year

means, with respect to a payment for an insurance or *reinsurance* claim, the year in which the insured event that gave rise to that claim was notified to the *firm*.

reserve risk method 1

means the method set out in 5.

reserve risk method 2

means the method set out in 6.

revision risk method

means the method set out in 7.

segment s

denotes the segment for which the *undertaking specific parameter* is determined, being a segment set out in Solvency Capital Requirement - Standard Formula 3A3 or a segment set out in Solvency Capital Requirement - Standard Formula 3C4, as specified in the *firm's USP permission*.

standard deviation for non-life gross premium risk

means the standard deviation for non-life gross *premium* risk referred to in Solvency Capital Requirement – Standard Formula 3A4.3.

standard deviation for non-life premium risk

means the standard deviation for non-life *premium* risk referred to in Solvency Capital Requirement – Standard Formula 3A4.2(1).

standard deviation for non-life reserve risk

means the standard deviation for non-life reserve risk referred to in Solvency Capital Requirement – Standard Formula 3A4.2(2).

standard deviation for NSLT health gross premium risk

means the standard deviation for *NSLT health* gross *premium* risk referred to in Solvency Capital Requirement – Standard Formula 3C5.3.

standard deviation for NSLT health premium risk

means the standard deviation for *NSLT health* *premium* risk referred to in Solvency Capital Requirement – Standard Formula 3C5.2(1).

standard deviation for NSLT health reserve risk

means the standard deviation for *NSLT health* reserve risk referred to in Solvency Capital Requirement – Standard Formula 3C5.2(2).

2 UNDERTAKING SPECIFIC PARAMETERS

2.1 A *firm* must not apply an *undertaking specific parameter* unless it is a *USP firm*.

- 2.2 A *USP firm* must not revert to using the standard parameter in respect of which it has been granted a *USP Permission*.
- 2.3 A *USP firm* must only use a *USP method* that corresponds to the standard parameter in respect of which it has been granted a *USP Permission*, as determined in accordance with the following table:

Standard parameter in respect of which the firm has been granted a <i>USP Permission</i>	Corresponding applicable <i>USP method</i>
in the <i>non-life premium and reserve risk</i> sub-module referred to in Solvency Capital Requirement – Standard Formula 3A1, for each segment set out in Solvency Capital Requirement – Standard Formula 3A3	
the <i>standard deviation for non-life premium risk</i>	<i>premium risk method</i>
the <i>standard deviation for non-life gross premium risk</i>	<i>premium risk method</i>
the <i>adjustment factor for non-proportional reinsurance (non-life)</i>	(1) where there is a <i>recognisable excess of loss reinsurance contract, non-proportional reinsurance method 1</i> ; and (2) where there is a <i>recognisable stop loss reinsurance contract, non-proportional reinsurance method 2</i>
the <i>standard deviation for non-life reserve risk</i>	<i>reserve risk method 1</i> or <i>reserve risk method 2</i>
in the <i>life revision risk</i> sub-module referred to in Solvency Capital Requirement – Standard Formula 3B5	
the <i>increase in the amount of annuity benefits (life)</i>	<i>revision risk method</i>
in the <i>NSLT health premium and reserve risk</i> sub-module referred to in Solvency Capital Requirement – Standard Formula 3C2, for each segment set out in Solvency Capital Requirement – Standard Formula 3C4	
the <i>standard deviation for NSLT health premium risk</i>	<i>premium risk method</i>
the <i>standard deviation for NSLT health gross premium risk</i>	<i>premium risk method</i>
the <i>adjustment factor for non-proportional reinsurance (NSLT health)</i>	(1) where there is a <i>recognisable excess of loss reinsurance contract, non-proportional reinsurance method 1</i> ; and (2) where there is a <i>recognisable stop loss reinsurance contract, non-proportional reinsurance method 2</i>
the <i>standard deviation for NSLT health reserve risk</i>	<i>reserve risk method 1</i> or <i>reserve risk method 2</i>
in the <i>health revision risk</i> sub-module referred to in Solvency Capital Requirement – Standard Formula	

3C15	
the <i>increase in the amount of annuity benefits (health)</i>	<i>revision risk method</i>

- 2.4 Where, in accordance with 2.3, a *USP firm* is permitted to select from alternative *USP methods*:
- (1) the *firm* must use the *USP method* that produces the most accurate result for the purposes of fulfilling the calibration requirements in Solvency Capital Requirement – General Provisions 3.3 and 3.4; and
 - (2) the *firm* must use the *USP method* that produces the most conservative result where it is not able to demonstrate the greater accuracy of the results of one *USP method* over another *USP method*.
- 2.5
- (1) For each segment set out in Solvency Capital Requirement – Standard Formula 3A3, a *firm* must not replace both of the following standard parameters:
 - (a) the *standard deviation for non-life gross premium risk*; and
 - (b) the *adjustment factor for non-proportional reinsurance (non-life)*.
 - (2) For each segment set out in Solvency Capital Requirement – Standard Formula 3C4, a *firm* must not replace both of the following standard parameters:
 - (a) the *standard deviation for NSLT health gross premium risk*; and
 - (b) the *adjustment factor for non-proportional reinsurance (health)*.

3 DATA CRITERIA

- 3.1 A *USP firm* must ensure that data used to calculate an *undertaking specific parameter* is complete, accurate, and appropriate.
- 3.2 For the purposes of 3.1, a *firm* must not treat data as complete, accurate, and appropriate unless they satisfy all the following criteria:
- (1) the data meet the conditions set out in Technical Provisions - Further Requirements 4(1), 4(2) and 4(3), and the *firm* complies in relation to that data with the requirements set out in Technical Provisions - Further Requirements 4(4), where any reference to the calculation of '*technical provisions*' is to be interpreted for these purposes as a reference to the calculation of an '*undertaking specific parameter*';
 - (2) the data are capable of being incorporated into the *USP method*;
 - (3) the data do not prevent the *firm* from complying with the requirements of Solvency Capital Requirement – General Provisions 3.3 and 3.4;
 - (4) the data meet any additional *USP method*-specific data requirements, as set out for each *USP method*; and
 - (5) the data and its production process are thoroughly documented, including:
 - (a) the collection of data and analysis of its quality, where the documentation required includes a directory of the data, specifying its source, characteristics, and usage and the specification for the collection, processing and application of the data;
 - (b) the choice of assumptions used in the production and adjustment of the data, including adjustments with regard to *reinsurance* and catastrophe claims and about the allocation of expenses, where the documentation required includes a directory of all relevant assumptions that

the calculation of *technical provisions* is based upon and a justification for the choice of the assumptions;

- (c) the selection and application of actuarial and statistical methods for the production and the adjustment of the data; and
- (d) the validation of the data.

3.3 Where external data are used, a *USP firm* must also ensure those data satisfy all of the following additional criteria:

- (1) the process for collecting the data is transparent, auditable and known by the *firm* that uses the data to calculate the *undertaking specific parameter*;
- (2) where the data stem from different sources, the assumptions made in the collection, processing and application of data ensure that the data are comparable;
- (3) the data stem from *firms* for which the business nature and risk profiles are similar to that of the *firm* that uses that data to calculate the *undertaking specific parameter*;
- (4) the *firm* that uses that data to calculate the *undertaking specific parameter* is able to verify that there is sufficient statistical evidence that the probability distributions underlying its own data and the external data have a high degree of similarity, in particular with respect to the level of volatility they reflect;
- (5) external data only comprise data from *firms* with a similar risk profile;
- (6) the risk profile referred to in (5) is similar to the risk profile of the *firm* that uses the data to calculate the *undertaking specific parameter*; and
- (7) for the purposes of (5) and (6), when considering whether the risk profiles are similar, a *firm* must consider in particular whether the external data comprise data from *firms* for which the business nature and risk profiles with respect to the external data are similar and for which there is sufficient statistical evidence that the probability distributions underlying the external data exhibit a high degree of homogeneity.

4 PREMIUM RISK METHOD

Input data and USP method-specific data requirements

- 4.1 A *USP firm* using the *premium risk method* to calculate an *undertaking specific parameter* must ensure that the data for estimating the standard deviation of *segment s* only consist of the following:
 - (1) *aggregated losses*; and
 - (2) the *earned premiums* in *segment s*.
- 4.2 The *aggregated losses* and *earned premiums* referred to in 4.1 must be available separately for each *accident year* of the insurance and *reinsurance* claims in *segment s*.
- 4.3 A *USP firm* using the *premium risk method* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following *USP method-specific data requirements*:
 - (1) the data are representative of the *premium risk* that the *firm* is exposed to during the following 12 *months*;
 - (2) data are available for at least five consecutive *accident years*;
 - (3) where the *premium risk method* is applied to replace the standard parameters for either the *standard deviation for non-life gross premium risk* or the *standard deviation for NSLT health gross premium*

risk, the *aggregated losses* and *earned premiums* are not adjusted for recoverables from *reinsurance contracts* and *special purpose vehicles* or *premiums* from *reinsurance contracts*;

- (4) where the *premium risk method* is applied to replace the standard parameters for either the *standard deviation for non-life premium risk* or the *standard deviation for NSLT health premium risk*:
 - (a) the *aggregated losses* are adjusted for amounts recoverable from *reinsurance contracts* and *special purpose vehicles* which are consistent with the *reinsurance contracts* and *special purpose vehicles* that are in place to provide cover for the following 12 months; and
 - (b) the *earned premiums* are adjusted for *premiums* from *reinsurance contracts* which are consistent with the *reinsurance contracts* and *special purpose vehicles* that are in place to provide cover for the following 12 months;
- (5) the *aggregated losses* are adjusted for catastrophe claims to the extent that the risk of those claims is reflected in the *non-life catastrophe risk* sub-module referred to in Solvency Capital Requirement – Standard Formula 3A7 or the *health catastrophe risk* sub-module referred to in Solvency Capital Requirement – Standard Formula 3C17;
- (6) the *aggregated losses* include the expenses incurred in servicing the insurance and *reinsurance* obligations; and
- (7) the data are consistent with the following assumptions:
 - (a) expected *aggregated losses* in a particular segment and *accident year* are linearly proportional in *earned premiums* in a particular *accident year*;
 - (b) the variance of *aggregated losses* in a particular segment and *accident year* is quadratic in *earned premiums* in a particular *accident year*;
 - (c) *aggregated losses* follow a lognormal distribution; and
 - (d) maximum likelihood estimation is appropriate.

USP method specification

4.4 For the purposes of 4.5 to 4.8, the following notations apply:

- (1) *accident years* are denoted by consecutive numbers starting with 1 for the first *accident year* for which data are available;
- (2) *T* denotes the latest *accident year* for which data are available;
- (3) for all *accident years*, the *aggregated losses* in segment *s* in a particular *accident year t* are denoted by y_t ; and
- (4) for all *accident years*, the *earned premiums* in segment *s* in a particular *accident year t* are denoted by x_t .

4.5 A USP firm using the *premium risk method* must calculate the standard deviation of segment *s* in accordance with the following formula:

$$\sigma_{(prem,s,USP)} = c \cdot \hat{\sigma}(\hat{\delta}, \hat{\gamma}) \cdot \sqrt{\frac{T+1}{T-1}} + (1-c) \cdot \sigma_{(prem,s)}$$

where:

- (1) *c* denotes the *credibility factor*;
- (2) $\hat{\sigma}$ denotes the standard deviation function set out in 4.6;

- (3) $\hat{\delta}$ denotes the mixing parameter set out in 4.7;
- (4) $\hat{\gamma}$ denotes the logarithmic variation coefficient set out in 4.7; and
- (5) $\sigma_{(prem,s)}$ denotes the standard parameter that is replaced by the *firm's undertaking specific parameter* in respect of *segment s*.

4.6 The standard deviation function must be equal to the following function of two variables:

$$\hat{\sigma}(\hat{\delta}, \hat{\gamma}) = \exp \left(\hat{\gamma} + \frac{\frac{1}{2}T + \sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma}) \cdot \ln\left(\frac{y_t}{x_t}\right)}{\sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma})} \right) \text{where:}$$

- (1) $\hat{\delta}$ and $\hat{\gamma}$ are defined in 4.5(3) and (4), respectively;
- (2) \exp denotes the exponential function;
- (3) \ln denotes the natural logarithm function; and
- (4) π_t denotes the following function of two variables:

$$\pi_t(\hat{\delta}, \hat{\gamma}) = \frac{1}{\ln \left(1 + \left((1 - \hat{\delta}) \cdot \frac{\bar{x}}{x_t} + \hat{\delta} \right) \cdot e^{2 \cdot \hat{\gamma}} \right)}$$

where:

- (a) $\hat{\delta}$ and $\hat{\gamma}$ are defined in 4.5(3) and (4), respectively; and
- (b) \bar{x} denotes the following amount:

$$\bar{x} = \frac{1}{T} \cdot \sum_{t=1}^T x_t$$

4.7 The mixing parameter and the logarithmic variation coefficient must be the values $\hat{\delta}$ and $\hat{\gamma}$ respectively for which the following amount becomes minimal:

$$\sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma}) \left(\ln\left(\frac{y_t}{x_t}\right) + \frac{1}{2 \cdot \pi_t(\hat{\delta}, \hat{\gamma})} + \hat{\gamma} - \ln(\hat{\sigma}(\hat{\delta}, \hat{\gamma})) \right)^2 - \sum_{t=1}^T \ln(\pi_t(\hat{\delta}, \hat{\gamma}))$$

where:

- (1) \ln denotes the natural logarithm function;
- (2) π_t denotes the function set out in 4.6(4);
- (3) $\hat{\sigma}$ denotes the standard deviation function set out in 4.6; and
- (4) \bar{x} denotes the following amount:

$$\bar{x} = \frac{1}{T} \cdot \sum_{t=1}^T x_t$$

4.8 For the purposes of 4.7, a *USP firm* must ensure that no values for the mixing parameter less than zero or exceeding 1 are considered for the determination of the minimal amount.

5 RESERVE RISK METHOD 1

Input data and USP method-specific data requirements

- 5.1 A USP firm using *reserve risk method 1* to calculate an *undertaking specific parameter* must ensure that the data for estimating the standard deviation of *segment s* consist of the following:
- (1) the sum of the *best estimate* provision at the end of the *financial year* for claims that were outstanding in *segment s* at the beginning of the *financial year* and the payments made during the *financial year* for claims that were outstanding in *segment s* at the beginning of the *financial year*; and
 - (2) the *best estimate* of the provision for claims outstanding in *segment s* at the beginning of the *financial year*.
- 5.2 The amounts referred to in 5.1(1) and 5.1(2) must be available separately for different *financial years*.
- 5.3 A USP firm using *reserve risk method 1* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following *USP method-specific* data requirements:
- (1) the data are representative of the reserve risk that the *firm* is exposed to during the following 12 *months*;
 - (2) data are available for at least five consecutive *financial years*;
 - (3) the data are adjusted for amounts recoverable from *reinsurance contracts* and *special purpose vehicles* which are consistent with the *reinsurance contracts* and *special purpose vehicles* that are in place to provide cover for the following 12 *months*;
 - (4) the data includes the expenses incurred in servicing the insurance and *reinsurance* obligations; and
 - (5) the data are consistent with the following assumptions:
 - (a) the amount referred to in 5.1(1) in that particular segment and *financial year* is linearly proportional in the *best estimate* of the provision for claims outstanding in that particular segment and *financial year*;
 - (b) the variance of the amount referred to 5.1(1) in a particular segment and *financial year* is quadratic in the provision for claims outstanding in a particular segment and *financial year*;
 - (c) the amount referred to in 5.1(1) follows a lognormal distribution; and
 - (d) maximum likelihood estimation is appropriate.

USP method specification

- 5.4 For the purposes of 5.5 to 5.8, the following notations apply:
- (1) the *financial years* are denoted by consecutive numbers starting with 1 for the first *financial year* for which data are available;
 - (2) T denotes the latest *financial year* for which data are available;
 - (3) for all *financial years*, the amount referred to 5.1(1) in *segment s* in a particular *financial year t* is denoted by y_t ; and
 - (4) for all *financial years*, the *best estimate* of the provision for claims outstanding in *segment s* in a particular *financial year t* is denoted by x_t .
- 5.5 A USP firm using *reserve risk method 1* must calculate the standard deviation of *segment s* in accordance with the following formula:

$$\sigma_{(res,s,USP)} = c \cdot \hat{\sigma}(\hat{\delta}, \hat{\gamma}) \cdot \sqrt{\frac{T+1}{T-1}} + (1-c) \cdot \sigma_{(res,s)}$$

where:

- (1) c denotes the *credibility factor*;
- (2) $\hat{\sigma}$ denotes the standard deviation function set out in 5.6;
- (3) $\hat{\delta}$ denotes the mixing parameter set out in 5.7;
- (4) $\hat{\gamma}$ denotes the logarithmic variation coefficient set out in 5.7; and
- (5) $\sigma_{(res,s)}$ denotes the standard parameter that is replaced by the *firm's undertaking specific parameter* in respect of *segment s*.

5.6 The standard deviation function must be equal to the following function of two variables:

$$\hat{\sigma}(\hat{\delta}, \hat{\gamma}) = \exp \left(\hat{\gamma} + \frac{\frac{1}{2}T + \sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma}) \cdot \ln \left(\frac{y_t}{x_t} \right)}{\sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma})} \right)$$

where:

- (1) $\hat{\delta}$ and $\hat{\gamma}$ are defined in 5.5(3) and 5.5(4), respectively;
- (2) \exp denotes the exponential function;
- (3) \ln denotes the natural logarithm function; and
- (4) π_t denotes the following function of two variables:

$$\pi_t(\hat{\delta}, \hat{\gamma}) = \frac{1}{\ln \left(1 + \left((1 - \hat{\delta}) \cdot \frac{\bar{x}}{x_t} + \hat{\delta} \right) \cdot e^{2 \cdot \hat{\gamma}} \right)}$$

where:

- (a) $\hat{\delta}$ and $\hat{\gamma}$ are defined in 5.5(3) and 5.5(4), respectively;
- (b) \bar{x} denotes the following amount:

$$\bar{x} = \frac{1}{T} \cdot \sum_{t=1}^T x_t$$

5.7 The mixing parameter and the logarithmic variation coefficient must be the values $\hat{\delta}$ and $\hat{\gamma}$ respectively for which the following amount becomes minimal:

$$\sum_{t=1}^T \pi_t(\hat{\delta}, \hat{\gamma}) \left(\ln \left(\frac{y_t}{x_t} \right) + \frac{1}{2 \cdot \pi_t(\hat{\delta}, \hat{\gamma})} + \hat{\gamma} - \ln \left(\hat{\sigma}(\hat{\delta}, \hat{\gamma}) \right) \right)^2 - \sum_{t=1}^T \ln \left(\pi_t(\hat{\delta}, \hat{\gamma}) \right)$$

where:

- (1) \ln denotes the natural logarithm function;
- (2) π_t denotes the function set out in 5.6(4);
- (3) $\hat{\sigma}$ denotes the standard deviation function set out in 5.6; and
- (4) \bar{x} denotes the following amount:

$$\bar{x} = \frac{1}{T} \cdot \sum_{t=1}^T x_t$$

- 5.8 For the purposes of 5.7, a *USP firm* must ensure that no values for the mixing parameter less than zero or exceeding 1 are considered for the determination of the minimal amount.

6 RESERVE RISK METHOD 2

Input data and USP method-specific data requirements

- 6.1 A *USP firm* using *reserve risk method 2* to calculate an *undertaking specific parameter* must ensure that the data for estimating the standard deviation of *segment s* consist of *cumulative claims amounts*, separately for each *accident year* and *development year* of the payments.
- 6.2 A *USP firm* using *reserve risk method 2* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following *USP method-specific data requirements*:
- (1) the data are representative of the reserve risk that the *firm* is exposed to during the following 12 months;
 - (2) data are available for at least five consecutive *accident years*;
 - (3) in the first *accident year*, data are available for at least five consecutive *development years*;
 - (4) in the first *accident year* the *cumulative claims amounts* of the latest *development year* for which data are available includes all the payments of the *accident year* except an immaterial amount;
 - (5) the number of consecutive *accident years* for which data are available is not less than the number of consecutive *development years* in the first *accident year* for which data are available;
 - (6) the *cumulative claims amounts* are adjusted for amounts recoverable from *reinsurance contracts* and *special purpose vehicles* which are consistent with the *reinsurance contracts* and *special purpose vehicles* that are in place to provide cover for the following 12 months;
 - (7) the *cumulative claims amounts* must include the expenses incurred in servicing the insurance or *reinsurance obligations*; and
 - (8) the data are consistent with the following assumptions about the stochastic nature of *cumulative claims amounts*:
 - (a) *cumulative claims amounts* for different *accident years* are mutually stochastically independent;
 - (b) for all *accident years* the implied incremental claim amounts are stochastically independent;
 - (c) for all *accident years* the expected value of the *cumulative claims amount* for a *development year* is proportional to the *cumulative claims amount* for the preceding *development year*; and
 - (d) for all *accident years* the variance of the *cumulative claims amount* for a *development year* is proportional to the *cumulative claims amount* for the preceding *development year*.
- 6.3 For the purposes of 6.2(4), a payment must be considered material where ignoring it in the calculation of the *undertaking specific parameter* could influence the decision-making or the judgement of the users of that information, including the *supervisory authorities*.

USP method specification

- 6.4 For the purposes of 6.5 and 6.6 the following notations apply:

- (1) the *accident years* are denoted by consecutive numbers starting with 0 for the first *accident year* for which data are available;
- (2) I denotes the latest *accident year* for which data are available;
- (3) J denotes the latest *development year* in the first *accident year* for which data are available; and
- (4) $C_{(i,j)}$ denotes the cumulative claims for *accident year* i and *development year* j .

6.5 A *USP firm* using *reserve risk method 2* must calculate the standard deviation for *segment* s in accordance with the following formula:

$$\sigma_{(res,s,USP)} = c \cdot \frac{\sqrt{MSEP}}{\sum_{i=0}^I (\hat{C}_{(i,J)} - C_{(i,I-i)})} + (1 - c) \cdot \sigma_{(res,s)}$$

where:

- (1) c denotes the *credibility factor*;
- (2) $MSEP$ denotes the mean squared error of prediction as specified in 6.6;
- (3) for all *accident years* and *development years*, $\hat{C}_{(i,J)}$ denotes the cumulative claims estimate for the specific *accident year* i and *development year* j , being defined as follows:

$$\hat{C}_{(i,J)} = C_{(i,I-i)} \hat{f}_{I-i} \cdots \hat{f}_{j-2} \hat{f}_{j-1}$$

where for all *development years* \hat{f}_j denotes for development factor estimate of the specific *development year* j , being defined as follows:

$$\hat{f}_j = \frac{\sum_{i=0}^{I-j-1} C_{(i,j+1)}}{\sum_{i=0}^{I-j-1} C_{(i,j)}}$$

- (4) $\sigma_{(res,s)}$ denotes the standard parameter that is replaced by the *firm's undertaking specific parameter* in respect of *segment* s .

6.6 The mean squared error of prediction must be equal to the following:

$$MSEP = \sum_{i=1}^I \hat{C}_{(i,J)}^2 \cdot \left(\frac{\hat{Q}_{I-i}}{C_{(i,I-i)}} + \frac{\hat{Q}_{I-i}}{S_{I-i}} + \sum_{j=I-i+1}^{J-1} \frac{C_{(I-j,j)}}{S'_j} \cdot \frac{\hat{Q}_j}{S_j} \right) + 2 \cdot \sum_{i=1}^I \sum_{k=i+1}^I \hat{C}_{(i,J)} \cdot \hat{C}_{(k,J)} \cdot \left(\frac{\hat{Q}_{I-i}}{S_{I-i}} + \sum_{j=I-i+1}^{J-1} \frac{C_{(I-j,j)}}{S'_j} \cdot \frac{\hat{Q}_j}{S_j} \right)$$

where:

- (1) for all *accident years* and *development years*, $\hat{C}_{(i,J)}$ denotes the cumulative claim estimate in the specific *accident year* i and *development year* j , as set out in 6.5(3);
- (2) for all *development years*, S_j denotes for a specific *development year* j the following amount:

$$S_j = \sum_{i=0}^{I-j-1} C_{(i,j)}$$

- (3) for all *development years*, S'_j denotes for a specific *development year* j the following amount:

$$S'_j = \sum_{i=0}^{I-j} C_{(i,j)}$$

- (4) for all *development years*, \hat{Q}_j denotes for a specific *development year* j the following amount:

$$\hat{Q}_j = \frac{\hat{\sigma}_j^2}{\hat{f}_j^2}$$

where:

- (a) \hat{f}_j denotes the development factor estimate of *development year j* as set out in 6.5(3); and
- (b) $\hat{\sigma}_j^2$ denotes the following amount:

$\hat{\sigma}_j^2 = \frac{1}{I-j-1} \sum_{i=0}^{I-j-1} C_{(i,j)} \left(\frac{C_{(i,j+1)}}{C_{(i,j)}} - \hat{f}_j \right)^2$	where $j = 0, \dots, (J-2)$
$\hat{\sigma}_j^2 = \min \left(\hat{\sigma}_{j-2}^2, \hat{\sigma}_{j-3}^2, \frac{\hat{\sigma}_{j-2}^4}{\hat{\sigma}_{j-3}^2} \right)$	where $j = (J-1)$

7 REVISION RISK METHOD

7.1 (1) A *USP firm* must only use the *revision risk method* for:

- (a) the *life revision risk* sub-module referred to in Solvency Capital Requirement - Standard Formula 3B5; or
- (b) the *health revision risk* sub-module referred to in Solvency Capital Requirement - Standard Formula 3C15,

if the annuities within scope of the relevant sub-module are not subject to material inflation risk.

- (2) For the purposes of (1), a *firm* must treat inflation risk as material where ignoring it in the calculation of the sub-modules referred to in (1)(a) and (1)(b) could influence the decision-making or the judgment of the users of the information, including the *supervisory authorities*.

Input data and USP method-specific data requirements

7.2 A *USP firm* using the *revision risk method* to calculate an *undertaking specific parameter* must ensure that the data for estimating the increase in the amount of annuity benefits consist of annual amounts of annuity benefits of annuity insurance obligations where the benefits payable could increase as a result of changes in the legal environment or in the state of health of the *person* insured, separately for consecutive *financial years* and each *beneficiary*.

7.3 A *USP firm* using the *revision risk method* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following *USP method-specific data requirements*:

- (1) the data are representative of the *revision risk* that the *firm* is exposed to during the following 12 months;
- (2) data are available for at least five consecutive *financial years*;
- (3) the annuity benefits are gross, without deduction of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*;
- (4) the annuity benefits must include the expenses incurred in servicing the annuity obligations; and
- (5) the data are consistent with the following assumptions about the stochastic nature of increases in the amount of annuity benefits:
 - (a) the annual number of increases in annuity benefits follows a negative binomial distribution, including in the tail of the distribution;

- (b) the amount of an increase in annuity benefits follows a lognormal distribution, including in the tail of the distribution; and
- (c) the annual number of increases in annuity benefits and the amounts of the increases in annuity benefits are mutually stochastically independent.

USP method specification

7.4 For the purposes of 7.5 to 7.9, the following notations apply:

- (1) the *financial years* are denoted by consecutive numbers starting with 1 for the first *financial year* for which data are available;
- (2) T denotes the latest *financial year* for which data are available;
- (3) $A_{(i,t)}$ denotes the annuity benefits of *beneficiary i* in *financial year t*, and
- (4) $D_{(i,t)}$ denotes the change of annuity benefits after *financial year t*, being equal to the following difference:

$$D_{(i,t)} = A_{(i,t)} - A_{(i,t-1)}$$

7.5 A USP firm using the *revision risk method* must calculate the increase in the amount of annuity benefits in accordance with the following formula:

$$S_{USP} = c \cdot \frac{VaR_{0.995}(R) - \bar{R}}{\bar{R}} + (1 - c) \cdot S$$

where:

- (1) c denotes the *credibility factor*;
- (2) \bar{R} denotes the expected value of increases in annuity benefits set out in 7.6;
- (3) $VaR_{0.995}(R)$ denotes the 99.5% quantile of the distribution of increases in annuity benefits set out in 7.7;
- (4) S is:
 - (a) equal to 3% where the calculation relates to the *life revision risk* sub-module referred to in Solvency Capital Requirement - Standard Formula 3B5; and
 - (b) equal to 4% where the calculation relates to the *health revision risk* sub-module referred to in Solvency Capital Requirement - Standard Formula 3C15.

7.6 The expected value of increases in annuity benefits must be equal to the following:

$$\bar{R} = \bar{X} \cdot \bar{N}$$

where:

- (1) \bar{X} denotes the estimated average change in annuity benefits, restricted to those changes in annuity benefits that are larger than zero; and
- (2) \bar{N} denotes the estimated average number, per *financial year*, of changes in annuity benefits that are larger than zero.

7.7 The increases in annuity benefits must be equal to the following:

$$R = \sum_{k=1}^N X_k$$

where:

- (1) N denotes the annual number of increases in annuity benefits and follows a negative binomial distribution with an expected value that is equal to the estimated number of changes in annuity benefits set out 7.6(2) and with a standard deviation that is equal to the estimated standard deviation of the number of changes in annuity benefits set out in 7.8;
- (2) X_k denotes the amount of an increase in annuity benefits and follows a lognormal distribution with an expected value that is equal to the estimated average change in annuity benefits set out in 7.6(1) and with a standard deviation that is equal to the estimated standard deviation of changes in annuity benefits set out in 7.9; and
- (3) the annual number of increases in annuity benefits and the amounts of the increase in annuity benefits are mutually stochastically independent.

7.8 The estimated standard deviation of the number of changes in annuity benefits must be equal to the following:

$$\hat{\sigma}_N = \sqrt{\frac{1}{T-1} \cdot \sum_{t=1}^T (N_t - \bar{N})^2}$$

where:

- (1) N_t denotes the number of changes in annuity benefits in *financial years* t that are larger than zero; and
- (2) \bar{N} denotes the estimated average change in annuity benefits set out in 7.6(2).

7.9 The estimated standard deviation of changes in annuity benefits must be equal to the following:

$$\hat{\sigma}_X = \sqrt{\frac{1}{n-1} \cdot \sum_{i,t} (D_{(i,t)} - \bar{X})^2}$$

where:

- (1) the sum includes only those *beneficiaries* i and *financial years* t for which $D_{(i,t)}$ is larger than zero;
- (2) n denotes the number of summands of the sum referred to in (1); and
- (3) \bar{X} denotes the estimated average change in annuity benefits set out in 7.6(1).

8 NON-PROPORTIONAL REINSURANCE METHOD 1

8.1 A USP firm must only use *non-proportional reinsurance method 1* if there is a *recognisable excess of loss reinsurance contract* in place.

Input data and USP method-specific data requirements

- 8.2 A USP firm using *non-proportional reinsurance method 1* to calculate an *undertaking specific parameter* must ensure that the data for estimating an adjustment factor for non-proportional *reinsurance* consist of the ultimate claim amounts of insurance and *reinsurance* claims that were reported to the *firm* in *segment s* during the preceding *financial years*, separately for each insurance and *reinsurance* claim.
- 8.3 A USP firm using *non-proportional reinsurance method 1* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following USP method-specific data requirements:

- (1) the data are representative of the *premium* risk that the *firm* is exposed to during the following 12 *months*;
- (2) the data do not indicate a higher *premium* risk than reflected in the corresponding standard deviation for *premium* risk used to calculate the *SCR* using the *standard formula*;
- (3) the ultimate claim amounts are estimated in the year the insurance and *reinsurance* claims were reported;
- (4) data are available for at least five *reporting years*;
- (5) where the *recognisable excess of loss reinsurance contract* applies to gross claims, the ultimate claim amounts are gross;
- (6) where the *recognisable excess of loss reinsurance contract* applies to claims after deduction of the recoverables from certain other *reinsurance contracts* and *special purpose vehicles*, the amounts receivable from those *reinsurance contracts* and *special purpose vehicles* are deducted from the ultimate claim amounts;
- (7) the ultimate claim amounts must not include expenses incurred in servicing the insurance and *reinsurance* obligations; and
- (8) the data are consistent with the assumption that ultimate claim amounts follow a lognormal distribution, including in the tail of the distribution.

USP method specification

8.4 For the purposes of 8.5 to 8.8, the following notations apply:

- (1) insurance and *reinsurance* claims for which data are available are denoted by consecutive numbers starting with 1;
- (2) n denotes the number of insurance and *reinsurance* claims for which data are available;
- (3) Y_i denotes the ultimate claim amount of the insurance and *reinsurance* claims i ;
- (4) μ and ω denote the first and second moment, respectively, of the claim amount distribution, being equal to the following amounts:

$$\mu = \frac{1}{n} \sum_{i=1}^n Y_i$$

and

$$\omega = \frac{1}{n} \sum_{i=1}^n Y_i^2$$

- (5) b_1 denotes the amount of the retention of the *recognisable excess of loss reinsurance contract*;
- (6) where the *recognisable excess of loss reinsurance contract* provides compensation only up to a specified limit, b_2 denotes the amount of that limit.

8.5 A USP firm using *non-proportional reinsurance method 1* must calculate the adjustment factor for non-proportional *reinsurance* in accordance with the following formula:

$$NP_{USP} = c \cdot NP' + (1 - c) \cdot NP$$

where:

- (1) c denotes the *credibility factor*;

- (2) NP' denotes the estimated adjustment factor for non-proportional *reinsurance* set out in 8.6; and
- (3) NP denotes the standard parameter that is replaced by the *firm's undertaking specific parameter*.

8.6 The estimated adjustment factor for non-proportional *reinsurance* must be equal to the following:

$NP' =$	$\sqrt{\frac{\omega_1 - \omega_2 + \omega + 2 \cdot (b_2 - b_1) \cdot (\mu_2 - \mu)}{\omega}}$	where 8.4(6) applies,
	$\sqrt{\frac{\omega_1}{\omega}}$	otherwise.

where the parameters μ_2 , ω_1 and ω_2 are set out in 8.7.

8.7 The parameters μ_2 , ω_1 and ω_2 must be equal to the following, respectively:

$$\mu_2 = \mu \cdot N\left(\frac{\ln(b_2 - \theta)}{\eta} - \eta\right) + b_2 \cdot N\left(-\frac{\ln(b_2) - \theta}{\eta}\right)$$

$$\omega_1 = \omega \cdot N\left(\frac{\ln(b_1 - \theta)}{\eta} - 2 \cdot \eta\right) + b_1^2 \cdot N\left(-\frac{\ln(b_1) - \theta}{\eta}\right)$$

$$\omega_2 = \omega \cdot N\left(\frac{\ln(b_2 - \theta)}{\eta} - 2 \cdot \eta\right) + b_2^2 \cdot N\left(-\frac{\ln(b_2) - \theta}{\eta}\right)$$

where:

- (1) N denotes the cumulative distribution function of the normal distribution;
- (2) \ln denotes the natural logarithm function; and
- (3) the parameters θ and η are equal to the following, respectively:

$$\theta = 2 \ln \mu - \frac{1}{2} \ln \omega$$

and

$$\eta = \sqrt{\ln \omega - 2 \ln \mu}$$

8.8 Notwithstanding 8.6, where non-proportional *reinsurance* covers homogeneous risk groups within a segment, the estimated adjustment factor for non-proportional *reinsurance* must be equal to the following:

$$NP' = \frac{\sum_h V_{(prem,h)} \cdot NP'_{(h)}}{\sum_h V_{(prem,h)}}$$

where:

- (1) $V_{(prem,h)}$ denotes the volume measure for *premium* risk of the homogeneous risk group h determined in accordance with Solvency Capital Requirement - Standard Formula 3A2.3; and
- (2) $NP'_{(h)}$ denotes the estimated adjustment factor for non-proportional *reinsurance* of homogeneous risk group h determined in accordance with 8.6.

9 NON-PROPORTIONAL REINSURANCE METHOD 2

- 9.1 A USP firm must only use *non-proportional reinsurance method 2* if there is a *recognisable stop loss reinsurance contract* in place.

Input data and USP method-specific data requirements

- 9.2 A USP firm using the *non-proportional reinsurance method 2* to calculate an *undertaking specific parameter* must ensure that data for estimating an adjustment factor for non-proportional *reinsurance* consist of the aggregated annual losses of insurance and *reinsurance* claims that were reported to the firm in *segment s* during the preceding *financial years*.
- 9.3 A USP firm using the *non-proportional reinsurance method 2* must ensure that the data used to calculate an *undertaking specific parameter* satisfy all the following USP method-specific data requirements:
- (1) the data are representative of the *premium risk* that the firm is exposed to during the following 12 *months*;
 - (2) the data do not indicate a higher *premium risk* than reflected in the corresponding standard deviation for *premium risk* used to calculate the SCR using the *standard formula*;
 - (3) the aggregated annual losses are estimated in the year insurance and *reinsurance* claims were reported;
 - (4) data are available for at least five *reporting years*;
 - (5) where the *recognisable stop loss reinsurance contract* applies to gross claims, the aggregated annual losses are gross;
 - (6) where the *recognisable stop loss reinsurance contract* applies to claims after deduction of the recoverables from certain other *reinsurance contracts* and *special purpose vehicles*, the amounts receivable from those *reinsurance contracts* and *special purpose vehicles* are deducted from the aggregated annual losses;
 - (7) the aggregated annual losses must not include expenses incurred in servicing the insurance and *reinsurance* obligations; and
 - (8) the data are consistent with the assumption that aggregated annual losses follow a lognormal distribution, including in the tail of the distribution.

USP method specification

- 9.4 For the purposes of 9.5 to 9.8, the following notations apply:
- (1) n denotes the number of *financial years* for which aggregated annual losses data are available;
 - (2) Y_i denotes the aggregated losses in *financial year i*;
 - (3) μ and ω denote the first and second moment, respectively, of the aggregated annual losses distribution, being equal to the following amounts:

$$\mu = \frac{1}{n} \sum_{i=1}^n Y_i$$
 and

$$\omega = \frac{1}{n} \sum_{i=1}^n Y_i^2$$
 - (4) b_1 denotes the amount of the retention of the *recognisable stop loss reinsurance contract*, and
 - (5) where the *recognisable stop loss reinsurance contract* provides compensation only up to a specified limit, b_2 denotes the amount of that limit.

- 9.5 A USP firm using the *non-proportional reinsurance method 2* must calculate the adjustment factor for non-proportional *reinsurance* in accordance with the following formula:

$$NP_{USP} = c \cdot NP' + (1 - c) \cdot NP$$

where:

- (1) c denotes the *credibility factor*;
 - (2) NP' denotes the estimated adjustment factor for non-proportional *reinsurance* set out in 9.6; and
 - (3) NP denotes the standard parameter that is replaced by the *firm's undertaking specific parameter*.
- 9.6 The estimated adjustment factor for non-proportional *reinsurance* must be equal to the following:

$NP' =$	$\sqrt{\frac{(\omega_1 + \omega - \omega_2 + 2(b_2 - b_1)(\mu_2 - \mu)) - (\mu_1 + \mu - \mu_2)^2}{\omega - \mu^2}}$	where 9.4(5) applies,
	$\sqrt{\frac{\omega - \mu_1^2}{\omega - \mu^2}}$	otherwise.

where the parameters μ_1 , μ_2 , ω_1 and ω_2 are set out in 9.7.

- 9.7 The parameters μ_1 , μ_2 , ω_1 and ω_2 must be equal to the following, respectively:

$$\mu_1 = \mu \cdot N\left(\frac{\ln(b_1 - \theta)}{\eta} - \eta\right) + b_1 \cdot N\left(-\frac{\ln(b_1) - \theta}{\eta}\right)$$

$$\mu_2 = \mu \cdot N\left(\frac{\ln(b_2 - \theta)}{\eta} - \eta\right) + b_2 \cdot N\left(-\frac{\ln(b_2) - \theta}{\eta}\right)$$

$$\omega_1 = \omega \cdot N\left(\frac{\ln(b_1 - \theta)}{\eta} - 2 \cdot \eta\right) + b_1^2 \cdot N\left(-\frac{\ln(b_1) - \theta}{\eta}\right)$$

$$\omega_2 = \omega \cdot N\left(\frac{\ln(b_2 - \theta)}{\eta} - 2 \cdot \eta\right) + b_2^2 \cdot N\left(-\frac{\ln(b_2) - \theta}{\eta}\right)$$

where:

- (1) N denotes the cumulative distribution function of the normal distribution;
- (2) \ln denotes the natural logarithm function; and
- (3) the parameters θ and η are equal to the following, respectively:

$$\theta = 2 \ln \mu - \frac{1}{2} \ln \omega$$

and

$$\eta = \sqrt{\ln \omega - 2 \ln \mu}$$

- 9.8 Notwithstanding 9.6, where non-proportional *reinsurance* covers homogeneous risk groups within a segment, the estimated adjustment factor for non-proportional *reinsurance* must be equal to the following:

$$NP' = \frac{\sum_h V_{(prem,h)} \cdot NP'(h)}{\sum_h V_{(prem,h)}}$$

where:

- (1) $V_{(prem,h)}$ denotes the volume measure for *premium* risk of the homogeneous risk group h determined in accordance with Solvency Capital Requirement - Standard Formula 3A2.3; and
- (2) $NP'_{(h)}$ denotes the estimated adjustment factor for non-proportional *reinsurance* of homogeneous risk group h determined in accordance with 9.6.

10 CREDIBILITY FACTOR

- 10.1 (1) The credibility factor for segments 1, 5 and 6 set out in Solvency Capital Requirement - Standard Formula 3A3 must be equal to the following:

Time lengths in years	Credibility factor c
5	34%
6	43%
7	51%
8	59%
9	67%
10	74%
11	81%
12	87%
13	92%
14	96%
15 and larger	100%

- (2) The credibility factor for:
- (a) segments 2 to 4 and 7 to 12 set out in Solvency Capital Requirement - Standard Formula 3A3;
 - (b) the segments set out in Solvency Capital Requirement - Standard Formula 3C4; and
 - (c) the *revision risk method*,
- must be equal to the following:

Time lengths in years	Credibility factor c
5	34%
6	51%
7	67%
8	81%

9	92%
10 and larger	100%

10.2 For the purposes of 10.1, the time length must be equal to the following:

- (1) for the *premium risk method*, the number of *accident years* for which data are available;
- (2) for *reserve risk method 1*, the number of *financial years* for which data are available;
- (3) for *reserve risk method 2*, the number of *accident years* for which data are available;
- (4) for *the revision risk method*, the number of *financial years* for which data are available; and
- (5) for *non-proportional reinsurance method 1* and *non-proportional reinsurance method 2*, the number of *reporting years* for which data are available.

Annex Q

Amendments to the Surplus Funds 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:

~~surplus funds~~

means, in relation to a ~~with-profits fund~~, accumulated profits which have not been made available for distribution to policyholders or other ~~beneficiaries~~ and which:

- ~~(1) satisfy the criteria for classification as Tier 1 own funds set out in Own Funds 3.1; and~~
- ~~(2) are represented by the output of the calculations set out in 3.~~

...

Annex R

Amendments to the Technical Provisions 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:

cost-of-capital rate

means the rate (above the relevant risk-free interest rate) that must be used in the determination of the cost that a *UK Solvency II firm* would incur in order to hold an amount of *eligible own funds* equal to the *SCR* necessary to support the insurance and *reinsurance* obligations over their lifetime, which, as specified in the *Solvency II Regulations* regulation 7B(b) of the *IRPR Regulations*, equals 4%.

[Note: regulation 7B of the *IRPR Regulations* provides that where the *PRA*'s rules require the *best estimate* and the *risk margin* to be calculated separately, the *risk margin* must be calculated in accordance with that regulation. This definition therefore requires a *firm* that values the *best estimate* and the *risk margin* separately to calculate the *risk margin* using the cost-of-capital rate specified in regulation 7B(b) of the *IRPR Regulations*]

reference undertaking

means the hypothetical *firm* which is assumed, for the purpose of calculating the *risk margin*, to take over the whole portfolio of insurance and *reinsurance* obligations of the *firm* (or in the case of a *composite firm* either the *general insurance business* or *long-term insurance business* of the *firm*) on the basis of the assumptions in 4B.

reference undertaking notional SCR

means the hypothetical *SCR* of the *reference undertaking*, calculated in accordance with 4B.1.

...

~~*volatility adjustment approval*~~

~~means the approval granted to a *firm* by the *PRA* to permit it to apply a *volatility adjustment* for the purposes of calculating the *best estimate*.~~

volatility adjustment permission

means the permission granted to a *firm* by the *PRA* pursuant to section 138BA of *FSMA* to permit it to apply a *volatility adjustment* for the purposes of calculating the *best estimate*.

...

4A CALCULATION OF THE RISK MARGIN

4A.1 In accordance with regulation 7B of the *IRPR Regulations*, where a *firm* values the *best estimate* and the *risk margin* separately, the *firm* must calculate the *risk margin* for the whole portfolio of insurance and *reinsurance* obligations in accordance with the following formula:

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t) \cdot \max(\lambda^t, \lambda_{\text{floor}})}{(1+r(t+1))^{t+1}}$$

where:

- (1) RM denotes risk margin;
- (2) CoC denotes the cost-of-capital rate;
- (3) the sum covers all integers including zero;
- (4) SCR(t) denotes the reference undertaking notional SCR after t years;
- (5) λ denotes the risk tapering factor, and equals:
 - (a) 0.9 for long-term insurance and reinsurance obligations; and
 - (b) 1.0 for general insurance and reinsurance obligations;
- (6) λ^t denotes the relevant risk tapering factor to the power of t years;
- (7) λ_{floor} denotes the floor of the risk tapering factor, and equals 0.25;
- (8) $r(t+1)$ denotes the basic relevant risk-free interest rate for the maturity of t+1 years, derived from the basic relevant risk-free interest rate term structure and selected in accordance with the currency used for the firm's financial statements.

[Note: regulation 7B of the *IRPR Regulations* provides that where the *PRA's* rules require the *best estimate* and the *risk margin* to be calculated separately, the *risk margin* must be calculated in accordance with that regulation. Rules 2.2 and 2.4 require the value of *technical provisions* to correspond to a current transfer value and to consist of a *best estimate* and a *risk margin*. Rule 2.5 (1) requires the *best estimate* and the *risk margin* to be valued separately, unless 2.5(2) applies. Rule 4A.1 therefore requires a *firm* that values the *best estimate* and the *risk margin* separately to calculate the *risk margin* as required by regulation 7B of the *IRPR Regulations*]

4A.2 Where a firm calculates its SCR using an internal model for which it has received internal model permission, it must, unless it is inappropriate to do so, use that internal model to calculate the reference undertaking notional SCR.

4A.3 A firm must allocate the risk margin for the whole portfolio of insurance and reinsurance obligations to each relevant line of business and such allocation must adequately reflect the contributions of the lines of business to the reference undertaking notional SCR over the lifetime of the whole portfolio of insurance and reinsurance obligations.

4B REFERENCE UNDERTAKING

4B.1 The risk margin must be based on all the following assumptions:

- (1) the whole portfolio of insurance and reinsurance obligations of the firm is taken over by a reference undertaking;
- (2) notwithstanding (1), a composite firm must assume that its general insurance business and long-term insurance business are each taken over separately by two different reference undertakings;
- (3) the transfer of insurance and reinsurance obligations includes any reinsurance contracts and arrangements with special purpose vehicles relating to those obligations;
- (4) the reference undertaking does not have any insurance or reinsurance obligations or own funds before the transfer takes place;
- (5) after the transfer, the reference undertaking does not assume any new insurance or reinsurance obligations;

- (6) after the transfer, the *reference undertaking* raises *eligible own funds* equal to the *reference undertaking notional SCR* necessary to support the insurance and *reinsurance* obligations over the lifetime of those obligations;
 - (7) after the transfer, the *reference undertaking* holds assets which amount to the sum of the *reference undertaking notional SCR* and of the *reference undertaking's technical provisions* net of the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*;
 - (8) the assets referred to in (7) are selected in such a way that they minimise the *reference undertaking notional SCR* for *market risk* that the *reference undertaking* is exposed to;
 - (9) the *reference undertaking notional SCR* captures all the following risks:
 - (a) *underwriting risk* with respect to the transferred business;
 - (b) where it is material, the *market risk* referred to in (8), other than interest rate risk;
 - (c) *credit risk* with respect to *reinsurance contracts*, arrangements with *special purpose vehicles*, intermediaries, *policyholders* and any other material exposures which are closely related to the insurance and *reinsurance* obligations; and
 - (d) *operational risk*;
 - (10) the loss-absorbing capacity of *technical provisions* for the *reference undertaking* corresponds, in respect of each risk, to the loss-absorbing capacity of *technical provisions* for the *firm*;
 - (11) there is no loss-absorbing capacity of deferred taxes for the *reference undertaking*;
 - (12) the *reference undertaking* will, subject to (5) and (6), adopt future management actions that are consistent with assumed future management actions, as referred to in Technical Provisions – Further Requirements 8, of the *firm*; and
 - (13) the *reference undertaking* does not apply to its *technical provisions* any of the following:
 - (a) *matching adjustment*;
 - (b) *volatility adjustment*;
 - (c) *risk-free interest rate transitional measure*; or
 - (d) *TMT*;
- 4B.2 Over the lifetime of the insurance and *reinsurance* obligations, the *SCR* necessary to support the insurance and *reinsurance* obligations referred to in 4.1 must be assumed to be equal to the *reference undertaking notional SCR*.
- 4B.3 For the purposes of 4B.1(9), a risk must be considered material where its impact on the calculation of the *risk margin* could influence the decision-making or the judgment of the users of that information, including the *PRA* and *FCA*.
- ...

8 VOLATILITY ADJUSTMENT

- 8.1 A firm ~~must not~~ may only apply a *volatility adjustment* to the relevant *risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations ~~unless~~:
- (1) if it has been granted a ~~*volatility adjustment approval*~~ *volatility adjustment permission*; and
 - (2) the *volatility adjustment* has been ~~set out in *Solvency II Regulations*~~ or published by the *PRA* under regulation 3 of the *IRPR regulations*; and

(3) to the extent of its *volatility adjustment permission*.

...

8.4 ~~A firm must only apply a *volatility adjustment* that includes a relevant country increase to calculate the *best estimate* of its insurance or *reinsurance* obligations of products sold in the insurance market of that country, respectively.~~~~[Deleted]~~

8.5 ~~A firm with a *The volatility adjustment*~~*volatility adjustment permission* shall not be applied ~~must not apply~~ the *volatility adjustment* with respect to insurance or *reinsurance* obligations where the *relevant risk-free interest rate term structure* used to calculate the *best estimate* for those obligations includes a *matching adjustment*.

[Note: Art. 77d and Art. 77e(3) of the *Solvency II Directive*]

...

10 SEGMENTATION

10.1 When calculating *technical provisions*, firms must segment their insurance and *reinsurance* obligations into homogenous risk groups and, as a minimum, by *lines of business*~~lines of business as contemplated by the *Solvency II Regulations*.~~

...

Annex S

Technical Provisions – Further Requirements Part

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

Part

TECHNICAL PROVISIONS – FURTHER REQUIREMENTS

Chapter content

1. APPLICATION
2. RECOGNITION AND DERECOGNITION OF INSURANCE AND REINSURANCE OBLIGATIONS
3. BOUNDARY OF AN INSURANCE OR REINSURANCE CONTRACT
4. DATA USED IN THE CALCULATION OF TECHNICAL PROVISIONS
5. LIMITATIONS OF DATA
6. APPROPRIATE USE OF APPROXIMATIONS TO CALCULATE THE BEST ESTIMATE
7. METHODOLOGIES TO CALCULATE TECHNICAL PROVISIONS ASSUMPTIONS
8. FUTURE MANAGEMENT ACTIONS
9. FUTURE DISCRETIONARY BENEFITS
10. SEPARATE CALCULATION OF THE FUTURE DISCRETIONARY BENEFITS
11. POLICYHOLDER BEHAVIOUR
12. CREDIBILITY OF INFORMATION
13. CASH-FLOWS
14. EXPECTED FUTURE DEVELOPMENTS IN THE EXTERNAL ENVIRONMENT
15. UNCERTAINTY OF CASH-FLOWS
16. EXPENSES
17. CONTRACTUAL OPTIONS AND FINANCIAL GUARANTEES
18. CURRENCY OF THE OBLIGATION
19. CALCULATION METHODS
20. HOMOGENEOUS RISK GROUPS OF LONG-TERM INSURANCE BUSINESS OBLIGATIONS
21. GENERAL INSURANCE BUSINESS OBLIGATIONS
22. CIRCUMSTANCES IN WHICH TECHNICAL PROVISIONS ARE TO BE CALCULATED AS A WHOLE AND THE METHOD TO BE USED
23. RECOVERABLES FROM REINSURANCE CONTRACTS AND SPVS – GENERAL PROVISIONS
24. COUNTERPARTY DEFAULT ADJUSTMENT
25. RISK FREE RATE INTEREST TERM STRUCTURE OF CURRENCIES PEGGED TO THE EURO
26. LINES OF BUSINESS

27. PROPORTIONALITY

ANNEX 1: LINES OF BUSINESS

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to:
- (1) a *UK Solvency II firm*;
 - (2) in accordance with Insurance General Application 3, the *Society*, and
 - (3) in accordance with Insurance General Application 3, *managing agents*.

GENERAL REQUIREMENTS

2 RECOGNITION AND DERECOGNITION OF INSURANCE AND REINSURANCE OBLIGATIONS

- 2.1 For the calculation of the *best estimate* and the *risk margin of technical provisions*, a *firm* must recognise an insurance or *reinsurance* obligation at the date that it becomes a party to the contract that gives rise to the obligation or the date the insurance or *reinsurance* cover begins, whichever date occurs earlier. A *firm* must only recognise the obligations within the boundary of the contract.

A *firm* must derecognise an insurance or *reinsurance* obligation only when it is extinguished, discharged, cancelled or expires.

3 BOUNDARY OF AN INSURANCE OR REINSURANCE CONTRACT

- 3.1 The boundaries of a *contract of insurance* are defined in accordance with 3.2 to 3.7.
- 3.2 All obligations relating to the contract, including obligations relating to unilateral rights of the *firm* to renew or extend the scope of the contract and obligations that relate to paid *premiums*, must belong to the contract unless otherwise stated in 3.3 to 3.6.
- 3.3 Obligations which relate to insurance or *reinsurance* cover provided by the *firm* after any of the following dates do not belong to the contract, unless the *firm* can compel the *policyholder* to pay the *premium* for those obligations:

- (1) the future date where the *firm* has a unilateral right to terminate the contract;
- (2) the future date where the *firm* has a unilateral right to reject *premiums* payable under the contract;
- (3) the future date where the *firm* has a unilateral right to amend the *premiums* or the benefits payable under the contract in such a way that the *premiums* fully reflect the risks.

3.3(3) applies where a *firm* has a unilateral right to amend at a future date the *premiums* or benefits of a portfolio of insurance or *reinsurance* obligations in such a way that the *premiums* of the portfolio fully reflect the risks covered by the portfolio.

However, in the case of *long-term insurance business* obligations where an individual risk assessment of the obligations relating to the insured person of the contract is carried out at the inception of the contract and that assessment cannot be repeated before amending the *premiums* or benefits, a *firm* must assess at the level of the contract whether the *premiums* fully reflect the risk for the purposes of (3).

A *firm* must not take into account restrictions on the unilateral right as referred to in (1), (2) and (3) of this paragraph and limitations on the extent to which *premiums* or benefits can be amended that have no discernible effect on the economics of the contract.

- 3.4 Where the *firm* has a unilateral right as referred to in 3.3 that only relates to a part of the contract, the same principles as defined in 3.3 must apply to that part of the contract.

- 3.5 Obligations that do not relate to *premiums* which have already been paid do not belong to a *contract of insurance* if all of the following requirements are met:
- (1) the contract does not provide compensation for a specified uncertain event that adversely affects the insured person;
 - (2) the contract does not include a financial guarantee of benefits; and
 - (3) the *firm* cannot compel the *policyholder* to pay the future *premium* for those obligations.
- For the purpose of (1) and (2), a *firm* must not take into account coverage of events and guarantees that have no discernible effect on the economics of the contract.
- 3.6 Where a *contract of insurance* can be unbundled into two parts and where one of those parts meets the requirements set out in 3.5(1), (2) and (3), any obligations that do not relate to the *premiums* of that part and which have already been paid do not belong to the contract.
- 3.7 A *firm* must, for the purposes of 3.3, only consider that *premiums* fully reflect the risks covered by a portfolio of insurance or *reinsurance* obligations, where there is no circumstance under which the amount of the benefits and expenses payable under the portfolio exceeds the amount of the *premiums* payable under the portfolio.

DATA QUALITY

4 DATA USED IN THE CALCULATION OF TECHNICAL PROVISIONS

- 4.1 Data used in the calculation of the *technical provisions* is only complete for the purpose of 12.1 in the Technical Provisions Part where both of the following conditions are met:
- (1) the data include sufficient historical information to assess the characteristics of the underlying risks and to identify trends in the risks; and
 - (2) the data are available for each of the relevant homogeneous risk groups used in the calculation of the *technical provisions* and no relevant data is excluded from being used in the calculation of the *technical provisions* without justification.
- 4.2 Data used in the calculation of the *technical provisions* is only accurate for the purpose of 12.1 in the Technical Provisions Part where all of the following conditions are met:
- (1) the data are free from material errors;
 - (2) data from different time periods used for the same estimation are consistent;
 - (3) the data are recorded in a timely manner and consistently over time.
- 4.3 Data used in the calculation of the *technical provisions* is only to be considered appropriate for the purpose of 12.1 in the Technical Provisions Part where all of the following conditions are met:
- (1) the data are consistent with the purposes for which they will be used;
 - (2) the amount and nature of the data ensure that the estimations made in the calculation of the *technical provisions* on the basis of the data do not include a material estimation error;
 - (3) the data are consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them in the calculation of the *technical provisions*;
 - (4) the data appropriately reflect the risks to which the *firm* is exposed with regard to its insurance and *reinsurance* obligations;
 - (5) the data were collected, processed and applied in a transparent and structured manner, based on a documented process that comprises all of the following:

- (a) the definition of criteria for the quality of data and an assessment of the quality of data, including specific qualitative and quantitative standards for different data sets;
 - (b) the use of and setting of assumptions made in the collection, processing and application of data;
 - (c) the process for carrying out data updates, including the frequency of updates and the circumstances that trigger additional updates; and
- (6) a *firm* ensures that its data are used consistently over time in the calculation of the *technical provisions*.

For the purposes of (2), an estimation error in the calculation of the *technical provisions* must be considered material where it could influence the decision-making or the judgement of the users of the calculation result, including a *supervisory authority*.

4.4 A *firm* may use data from an external source provided that, in addition to fulfilling the requirements set out in 4.1 to 4.3, all of the following requirements are met:

- (1) the *firm* is able to demonstrate that the use of that data is more suitable than the use of data which are exclusively available from an internal source;
- (2) the *firm* knows the origin of that data and the assumptions or methodologies used to process that data;
- (3) the *firm* identifies any trends in that data and the variation, over time or across data, of the assumptions or methodologies in the use of that data; and
- (4) the *firm* is able to demonstrate that the assumptions and methodologies referred to in (2) and (3) reflect the characteristics of the *firm's* portfolio of insurance and *reinsurance* obligations.

5 LIMITATIONS OF DATA

5.1 Where data does not comply with 4, a *firm* must document appropriately the limitations of the data, including a description of whether and how such limitations will be remedied and of the functions within the system of governance of the *firm* responsible for that process. The data, before adjustments to remedy limitations are made to it, must be recorded and stored appropriately by the *firm*.

6 APPROPRIATE USE OF APPROXIMATIONS TO CALCULATE THE BEST ESTIMATE

6.1 Where a *firm* has insufficient data of appropriate quality to apply a reliable actuarial method, the *firm* may use appropriate approximations to calculate the *best estimate* provided that all of the following requirements are met:

- (1) the insufficiency of data is not due to inadequate internal processes and procedures of collecting, storing or validating data used for the valuation of *technical provisions*;
- (2) the insufficiency of data cannot be remedied by the use of external data; and
- (3) it would not be practicable for the *firm* to adjust the data to remedy the insufficiency.

METHODOLOGIES TO CALCULATE TECHNICAL PROVISIONS

7 METHODOLOGIES TO CALCULATE TECHNICAL PROVISIONS ASSUMPTIONS

7.1 Assumptions shall only be considered realistic for the purposes of 3.1(2)(a) in the Technical Provisions Part where they meet all of the following conditions:

- (1) the *firm* is able to explain and justify each of the assumptions used, taking into account the significance of the assumption, the uncertainty involved in the assumption as well as relevant alternative assumptions;
- (2) the circumstances under which the assumptions would be considered false can be clearly identified;
- (3) unless otherwise provided in this Part, the assumptions are based on the characteristics of the portfolio of insurance and *reinsurance* obligations, where possible regardless of the *firm* holding the portfolio;
- (4) the *firm* uses the assumptions consistently over time and within homogeneous risk groups and *lines of business*, without arbitrary changes; and
- (5) the assumptions adequately reflect any uncertainty underlying the cash-flows.

For the purpose of (3), a *firm* must only use information specific to that *firm*, including information on claims management and expenses, where that information better reflects the characteristics of the portfolio of insurance or *reinsurance* obligations than information that is not limited to the specific *firm* or where the calculation of *technical provisions* in a prudent, reliable and objective manner without using that information is not possible.

- 7.2 Assumptions must only be used for the purpose of 4.2 in the Technical Provisions Part where they comply with 7.1.
- 7.3 A *firm* must set assumptions on future financial market parameters or scenarios that are appropriate and consistent with 2 to 12 of the Valuation Part. Where a *firm* uses a model to produce projections of future financial market parameters, the *firm* must ensure it complies with all of the following requirements:
- (1) it generates asset prices that are consistent with asset prices observed in financial markets;
 - (2) it assumes no arbitrage opportunity; and
 - (3) the calibration of the parameters and scenarios is consistent with the *relevant risk-free interest rate term structure* used to calculate the *best estimate* as referred to in 3 of the Technical Provisions Part.

8 FUTURE MANAGEMENT ACTIONS

- 8.1 Assumptions on future management actions shall only be considered realistic for the purposes of 3.1(2)(a) in the Technical Provisions Part where they meet all of the following conditions:
- (1) the assumptions on future management actions are determined in an objective manner;
 - (2) assumed future management actions are consistent with the *firm's* current business practice and business strategy, including the use of *risk-mitigation techniques*; where there is sufficient evidence that the *firm* will change its practices or strategy, the assumed future management actions are consistent with the changed practices or strategy;
 - (3) assumed future management actions are consistent with each other;
 - (4) assumed future management actions are not contrary to any obligations towards *policyholders* or to legal requirements applicable to the *firm*; and
 - (5) assumed future management actions take account of any public indications by the *firm* as to the actions that it would expect to take or not take.
- 8.2 Assumptions about future management actions shall be realistic and include all of the following:

- (1) a comparison of assumed future management actions with management actions taken previously by the *firm*;
- (2) a comparison of future management actions taken into account in the current and in the past calculations of the *best estimate*; and
- (3) an assessment of the impact of changes in the assumptions on future management actions on the value of the *technical provisions*.

A *firm* must be able to explain any relevant deviations in relation to (1) and (2) to the *PRA* and, where changes in an assumption on future management actions have a significant impact on the *technical provisions*, the reasons for that sensitivity and how the sensitivity is taken into account in the decision-making process of the *firm*.

- 8.3 For the purpose of 8.1, a *firm* must establish a comprehensive future management actions plan, approved by the *governing body* of the *firm*, which provides for all of the following:
- (1) the identification of future management actions that are relevant to the valuation of the *technical provisions*;
 - (2) the identification of the specific circumstances in which the *firm* would reasonably expect to carry out each respective future management action referred to in 8.3(1);
 - (3) the identification of the specific circumstances in which the *firm* may not be able to carry out each respective future management action referred to in 8.3(1), and a description of how those circumstances are considered in the calculation of *technical provisions*;
 - (4) the order in which future management actions referred to in 8.3(1) would be carried out and the governance requirements applicable to those future management actions;
 - (5) a description of any on-going work required to ensure that the *firm* is in a position to carry out each respective future management action referred to in 8.3(1);
 - (6) a description of how the future management actions referred to in 8.3(1) have been reflected in the calculation of the *best estimate*; and
 - (7) a description of the applicable internal reporting procedures that cover the future management actions referred to in 8.3(1) included in the calculation of the *best estimate*.
- 8.4 Assumptions about future management actions must take account of the time needed to implement the management actions and any expenses caused by them.
- 8.5 The system for ensuring the transmission of information shall only be considered to be effective for the purpose of 2.2 of the Conditions Governing Business Part where the reporting procedures referred to in 8.3(7) include at least an annual communication to the *governing body*.

9 FUTURE DISCRETIONARY BENEFITS

- 9.1 Where *future discretionary benefits* depend on the assets held by the *firm*, the *firm* must base the calculation of the *best estimate* on the assets it currently holds and must assume future changes of their asset allocation in accordance with 8. The assumptions on the future returns of the assets must be consistent with the *relevant risk-free interest rate term structure*, including where applicable a *matching adjustment*, a *volatility adjustment*, or a *risk-free interest rate transitional measure*, and the valuation of the assets in accordance with 2 to 12 of the Valuation Part.

10 SEPARATE CALCULATION OF THE FUTURE DISCRETIONARY BENEFITS

- 10.1 When calculating *technical provisions*, a *firm* must determine separately the value of *future discretionary benefits*.

11 POLICYHOLDER BEHAVIOUR

- 11.1 When determining the likelihood that *policyholders* will exercise contractual options, including lapses and *surrenders*, a *firm* must conduct an analysis of past *policyholder* behaviour and a prospective assessment of expected *policyholder* behaviour. That analysis must take into account all of the following:

- (1) how beneficial the exercise of the options was and will be to the *policyholders* under circumstances at the time of exercising the option;
- (2) the influence of past and future economic conditions;
- (3) the impact of past and future management actions; and
- (4) any other circumstances that are likely to influence decisions by *policyholders* on whether to exercise the option.

The likelihood shall only be considered to be independent of the elements referred to in (1) to (4) where there is empirical evidence to support such an assumption.

METHODOLOGIES - INFORMATION UNDERLYING THE CALCULATION OF BEST ESTIMATES

12 CREDIBILITY OF INFORMATION

- 12.1 Information shall only be considered credible for the purposes of 3.1 of the Technical Provisions Part where a *firm* can provide evidence of the credibility of the information taking into account the consistency and objectivity of that information, the reliability of the source of the information and the transparency of the way in which the information is generated and processed.

METHODOLOGIES - CASH-FLOW PROJECTIONS FOR THE CALCULATION OF THE BEST ESTIMATE

13 CASH-FLOWS

- 13.1 The cash-flow projection used in the calculation of the *best estimate* must include all of the following cash-flows, to the extent that these cash-flows relate to existing *contracts of insurance*:
- (1) benefit payments to *policyholders*;
 - (2) payments that the *firm* will incur in providing contractual benefits that are paid in kind;
 - (3) payments of expenses as referred to in 9.1(1) of the Technical Provisions Part;
 - (4) *premium* payments and any additional cash-flows that result from those *premiums*;
 - (5) payments between the *firm* and *intermediaries* related to insurance or *reinsurance* obligations;
 - (6) payments between the *firm* and *investment firms* in relation to contracts with *index-linked benefits* and unit linked benefits;

- (7) payments for salvage and subrogation to the extent that they do not qualify as separate assets or liabilities in accordance with *UK-adopted international accounting standards*; and
- (8) taxation payments which are, or are expected to be, charged to *policyholders* or are required to settle the insurance or *reinsurance* obligations.

14 EXPECTED FUTURE DEVELOPMENTS IN THE EXTERNAL ENVIRONMENT

- 14.1 The calculation of the *best estimate* must take into account expected future developments that will have a material impact on the cash in- and out-flows required to settle the insurance and *reinsurance* obligations over their lifetime. For that purpose future developments must include demographic, legal, medical, technological, social, environmental and economic developments including inflation as referred to in 9.1(2) of the Technical Provisions Part.

15 UNCERTAINTY OF CASH-FLOWS

- 15.1 The cash-flow projection used in the calculation of the *best estimate* must, explicitly or implicitly, take account of all uncertainties in the cash-flows, including all of the following characteristics:
- (1) uncertainty in the timing, frequency and severity of insured events;
 - (2) uncertainty in claim amounts, including uncertainty in claims inflation, and in the period needed to settle and pay claims;
 - (3) uncertainty in the amount of expenses referred to 9.1(1) of the Technical Provisions Part;
 - (4) uncertainty in expected future developments referred to in 14 to the extent that it is practicable;
 - (5) uncertainty in *policyholder* behaviour;
 - (6) dependency between two or more causes of uncertainty; and
 - (7) dependency of cash-flows on circumstances prior to the date of the cash-flow.

16 EXPENSES

- 16.1 A cash-flow projection used to calculate *best estimates* must take into account all of the following expenses, which relate to recognised insurance and *reinsurance* obligations of the *firm* and which are referred to in 9.1(1) of the Technical Provisions Part:
- (1) administrative expenses;
 - (2) investment management expenses;
 - (3) claims management expenses; and
 - (4) acquisition expenses.
- The expenses referred to in (1) to (4) must take into account overhead expenses incurred in servicing insurance and *reinsurance* obligations.
- 16.2 Overhead expenses must be allocated in a realistic and objective manner and on a consistent basis over time to the parts of the *best estimate* to which they relate.
- 16.3 Expenses in respect of *reinsurance contracts* and *special purpose vehicles* must be taken into account in the gross calculation of the *best estimate*.
- 16.4 Expenses must be projected on the assumption that the *firm* will write new business in the future.

17 CONTRACTUAL OPTIONS AND FINANCIAL GUARANTEES

17.1 When calculating the *best estimate*, a *firm* must take into account both of the following:

- (1) all financial guarantees and contractual options included in their *contracts of insurance*; and
- (2) all factors which may affect the likelihood that *policyholders* will exercise contractual options or realise the value of financial guarantees.

18 CURRENCY OF THE OBLIGATION

18.1 The *best estimate* must be calculated separately for cash-flows in different currencies.

19 CALCULATION METHODS

19.1 The *best estimate* is to be calculated in a transparent manner and in such a way as to ensure that the calculation method and the results that derive from it are capable of review by a qualified expert.

19.2 The choice of actuarial and statistical methods for the calculation of the *best estimate* must be based on their appropriateness to reflect the risks which affect the underlying cash-flows and the nature of the insurance and *reinsurance* obligations. The actuarial and statistical methods are to be consistent with and make use of all relevant data available for the calculation of the *best estimate*.

19.3 Where a calculation method is based on grouped *policy* data, a *firm* must ensure that the grouping of *policies* creates homogeneous risk groups that appropriately reflect the risks of the individual *policies* included in those groups.

19.4 A *firm* must analyse the extent to which the present value of cash-flows depends both on the expected outcome of future events and developments and on how the actual outcome in certain scenarios could deviate from the expected outcome.

19.5 Where the present value of cash-flows depends on future events and developments as referred to in 19.4, a *firm* must use a method to calculate the *best estimate* for cash-flows which reflects such dependencies.

20 HOMOGENEOUS RISK GROUPS OF LONG-TERM INSURANCE BUSINESS OBLIGATIONS

20.1 Subject to 27, a *firm* must make cash-flow projections used in the calculation of *best estimates* for *long-term insurance business* obligations:

- (1) separately for each *policy*, or
- (2) a *firm* may carry out the projection for groups of *policies*, provided that the grouping complies with all of the following requirements:
 - (a) there are no significant differences in the nature and complexity of the risks underlying the *policies* that belong to the same group;
 - (b) the grouping of *policies* does not misrepresent the risk underlying the *policies* and does not misstate their expenses; and
 - (c) the grouping of *policies* is likely to give approximately the same results for the *best estimate* calculation as a calculation on a per *policy* basis, in particular in relation to financial guarantees and contractual options included in the *policies*.

21 GENERAL INSURANCE BUSINESS OBLIGATIONS

- 21.1 The *best estimate* for *general insurance business* obligations must be calculated separately for the *premium* provision and for the provision for claims outstanding.
- 21.2 The *premium* provision must relate to future claim events covered by insurance and *reinsurance* obligations falling within the contract boundary referred to in 3. Cash-flow projections for the calculation of the *premium* provision must include benefits, expenses and *premiums* relating to these events.
- 21.3 The provision for claims outstanding must relate to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not.
- 21.4 Cash-flow projections for the calculation of the provision for claims outstanding must include benefits, expenses and *premiums* relating to the events referred to in 21.3.

TECHNICAL PROVISIONS CALCULATED AS A WHOLE

22 CIRCUMSTANCES IN WHICH TECHNICAL PROVISIONS ARE TO BE CALCULATED AS A WHOLE AND THE METHOD TO BE USED

- 22.1 For the purposes of Technical Provisions 2.5(2)(a), reliability must be assessed pursuant to 22.2 and 22.3 and *technical provisions* must be valued pursuant to 22.4.
- 22.2 A *firm* shall consider the replication of cash-flows to be reliable where those cash-flows are replicated in amount and timing in relation to the underlying risks of those cash-flows and in all possible scenarios. The following cash-flows associated with insurance or *reinsurance* obligations cannot be reliably replicated:
- (1) cash-flows associated with insurance or *reinsurance* obligations that depend on the likelihood that *policyholders* will exercise contractual options, including lapses and *surrenders*;
 - (2) cash-flows associated with insurance or *reinsurance* obligations that depend on the level, trend, or volatility of mortality, disability, sickness and morbidity rates;
 - (3) all expenses that will be incurred in servicing insurance and *reinsurance* obligations.
- 22.3 Financial instruments shall be considered to be financial instruments for which a reliable *market value* is observable where those financial instruments are traded on an active, deep, liquid and transparent market. Active markets must also comply with 6.4 of the Valuation Part.
- 22.4 A *firm* must determine the value of *technical provisions* on the basis of the market price of the financial instruments used in the replication.

RECOVERABLES FROM REINSURANCE CONTRACTS AND SPVS

23 RECOVERABLES FROM REINSURANCE CONTRACTS AND SPVS – GENERAL PROVISIONS

- 23.1 The amounts recoverable from *reinsurance contracts* and *special purpose vehicles* must be calculated consistently with the boundaries of the *contracts of insurance* to which those amounts relate.
- 23.2 The amounts recoverable from *special purpose vehicles*, the amounts recoverable from finite *reinsurance contracts* as referred to in 8.1 of the Conditions Governing Business Part and the amounts recoverable from other *reinsurance contracts* must each be calculated separately. The

amounts recoverable from a *special purpose vehicle* must not exceed the *aggregate maximum risk exposure* of that *special purpose vehicle* to the *firm*.

- 23.3 For the purpose of calculating the amounts recoverable from *reinsurance contracts* and *special purpose vehicles*, cash-flows shall only include payments in relation to compensation of insurance events and unsettled insurance claims. Payments in relation to other events or settled insurance claims are to be accounted for outside the amounts recoverable from *reinsurance contracts* and *special purpose vehicles* and other elements of the *technical provisions*. Where a deposit has been made for the cash-flows, the amounts recoverable are to be adjusted accordingly to avoid a double counting of the assets and liabilities relating to the deposit.
- 23.4 The amounts recoverable from *reinsurance contracts* and *special purpose vehicles* for *general insurance business* obligations must be calculated separately for *premium* provisions and provisions for claims outstanding in the following manner:
- (1) the cash-flows relating to provisions for claims outstanding must include the compensation payments relating to the claims accounted for in the gross provisions for claims outstanding of the *firm* ceding risks;
 - (2) the cash-flows relating to *premium* provisions must include all other payments.
- 23.5 Where cash-flows from the *special purpose vehicles* to the *firm* do not directly depend on the claims against the *firm* ceding risks, the amounts recoverable from those *special purpose vehicles* for future claims shall only be taken into account to the extent that it can be verified in a prudent, reliable and objective manner that the structural mismatch between claims and amounts recoverable is not material.

24 COUNTERPARTY DEFAULT ADJUSTMENT

- 24.1 Adjustments to take account of expected losses due to default of a *counterparty* referred to in 11.1(3) of the Technical Provisions Part must be calculated separately from the rest of the amounts recoverable.
- 24.2 The adjustment to take account of expected losses due to default of a *counterparty* must be calculated as the expected present value of the change in cash-flows underlying the amounts recoverable from that *counterparty*, that would arise if the *counterparty* defaults, including as a result of insolvency or dispute, at a certain point in time. For that purpose, the change in cash-flows must not take into account the effect of any *risk-mitigation techniques* that mitigates the *credit risk* of the *counterparty*, other than *risk-mitigation techniques* based on *collateral* holdings. The *risk-mitigation techniques* that are not taken into account are to be separately recognised without increasing the amount recoverable from *reinsurance contracts* and *special purpose vehicles*.
- 24.3 The calculation referred to in 24.2 must take into account possible default events over the lifetime of the *reinsurance contract* or arrangement with the *special purpose vehicle* and whether and how the probability of default varies over time. It must be carried out separately by each *counterparty* and for each *line of business*. In *general insurance business*, it is also to be carried out separately for *premium* provisions and provisions for claims outstanding.
- 24.4 The average loss resulting from a default of a *counterparty*, referred to in 11.1(3) of the Technical Provisions Part, must not be assessed at lower than 50% of the amounts recoverable excluding the adjustment referred to in 24.1, unless there is a reliable basis for another assessment.
- 24.5 The probability of default of a *special purpose vehicle* is to be calculated on the basis of the *credit risk* inherent in the assets held by the *special purpose vehicle*.

25 RISK FREE RATE INTEREST TERM STRUCTURE OF CURRENCIES PEGGED TO THE EURO

25.1 A firm may use the *basic relevant risk-free interest rate term structure* for the EUR, adjusted for currency risk, to calculate the *best estimate* with respect to insurance or *reinsurance* obligations denoted in a currency pegged to the EUR, provided that all of the following conditions are met:

- (1) the pegging ensures that the exchange rate between that currency and the EUR stays within a range not wider than 20% of the upper limit of the range;
- (2) the economic situation of the EUR area and the area of that currency are sufficiently similar to ensure that interest rates for the EUR and that currency develop in a similar way;
- (3) the pegging arrangement ensures that the relative changes in the exchange rate over a one-year-period do not exceed the range referred to in (1) in the event of extreme market events, that correspond to the confidence level set out in Solvency Capital Requirement – General Provisions 3.3 and 3.4; and
- (4) one of the following criteria is complied with:
 - (a) participation of that currency in the European Exchange Rate Mechanism (ERM II);
 - (b) existence of a decision from the Council of the European Union which recognises pegging arrangements between that currency and the EUR;
 - (c) establishment of the pegging arrangement by the law of the country establishing that country's currency.

For the purpose of (3), the financial resources of the parties that guarantee the pegging must be taken into account.

25.2 The adjustment for currency risk referred to in 25.1 must be negative and must correspond to the cost of hedging against the risk that the value in the pegged currency of an investment denominated in EUR decreases as a result of changes in the level of the exchange rate between the EUR and the pegged currency.

LINES OF BUSINESS

26 LINES OF BUSINESS

26.1 The *lines of business* referred to in 10.1 of the Technical Provisions Part are those set out in Annex 1.

26.2 The assignment of an insurance or *reinsurance* obligation to a *line of business* must reflect the nature of the risks relating to the obligation. The legal form of the obligation is not necessarily determinative of the nature of the risk.

26.3 Provided that the technical basis is consistent with the nature of the risks relating to the obligation, *health insurance obligations* pursued on a similar technical basis to that of *long-term insurance business* must be assigned to the *lines of business* for *long-term insurance business* and *health insurance obligations* pursued on a similar technical basis to that of *general insurance business* must be assigned to the *lines of business* for *general insurance business*.

26.4 Where the insurance obligations arising from the operations referred to in paragraph V, VI, VII or VIII of Part II to Schedule 1 of the *Regulated Activities Order* cannot clearly be assigned to the *lines of business* set out in Annex 1 on the basis of their nature, they must be included in *line of business* 32 as set out in Annex 1.

- 26.5 Where a *contract of insurance* covers risks across *long-term insurance business* and *general insurance business*, the insurance or *reinsurance* obligations must be unbundled into their *long-term insurance business* and *general insurance business* parts.
- 26.6 Where a *contract of insurance* covers risks across the *lines of business* as set out in Annex 1, the insurance or *reinsurance* obligations must, where possible, be unbundled into the appropriate *lines of business*.
- 26.7 Where a *contract of insurance* includes:
- (1) *health insurance obligations* or *health reinsurance obligations*; and
 - (2) other insurance or *reinsurance* obligations;
- those obligations must, where possible, be unbundled.

SIMPLIFICATIONS

27 PROPORTIONALITY

- 27.1 A *firm* must use methods to calculate *technical provisions* which are proportionate to the nature, scale and complexity of the risks underlying their insurance and *reinsurance* obligations.
- 27.2 In determining whether a method of calculating *technical provisions* is proportionate, a *firm* must carry out an assessment which includes:
- (1) an assessment of the nature, scale and complexity of the risks underlying its insurance and *reinsurance* obligations;
 - (2) an evaluation in qualitative or quantitative terms of the error introduced in the results of the method due to any deviation between the following:
 - (a) the assumptions underlying the method in relation to the risks;
 - (b) the results of the assessment referred to in (1).
- 27.3 The assessment referred to in 27.2(2)(a) must include all risks which affect the amount, timing or value of the cash in- and out-flows required to settle the insurance and *reinsurance* obligations over their lifetime. For the purpose of the calculation of the *risk margin*, the assessment must include all risks referred to in 27.2(2)(a) over the lifetime of the underlying insurance and *reinsurance* obligations. The assessment shall be restricted to the risks that are relevant to that part of the calculation of *technical provisions* to which the method is applied.
- 27.4 A method shall be considered disproportionate to the nature, scale and complexity of the risks if the error referred to in 27.2(2)(b) leads to a misstatement of *technical provisions* or their components that could influence the decision-making or judgment of the intended user of the information relating to the value of *technical provisions*, unless one of the following conditions are met:
- (1) no other method with a smaller error is available and the method is not likely to result in an underestimation of the amount of *technical provisions*;
 - (2) the method leads to an amount of *technical provisions* of the *firm* that is higher than the amount that would result from using a proportionate method and the method does not lead to an underestimation of the risk inherent in the insurance and *reinsurance* obligations that it is applied to.

ANNEX 1: LINES OF BUSINESS

PART A: GENERAL INSURANCE BUSINESS OBLIGATIONS

1. Medical expense insurance
Medical expense insurance obligations where the underlying business is not pursued on a similar technical basis to that of *long-term insurance business*, other than obligations included in the *line of business* 3.
2. Income protection insurance
Income protection insurance obligations where the underlying business is not pursued on a similar technical basis to that of *long-term insurance business*, other than obligations included in the *line of business* 3.
3. Workers' compensation insurance
Health insurance obligations which relate to accidents at work, industrial injury and occupational diseases and where the underlying business is not pursued on a similar technical basis to that of *long-term insurance business*.
4. Motor vehicle liability insurance
Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land (including carrier's liability).
5. Other motor insurance
Insurance obligations which cover all damage to or loss of land vehicles (including *railway rolling stock*).
6. Marine, aviation and transport insurance
Insurance obligations which cover all damage or loss to sea, lake, river and canal vessels, *aircraft*, and damage to or loss of *goods in transit* or baggage irrespective of the form of transport. Insurance obligations which cover liabilities arising out of the use of *aircraft*, *ships*, vessels or boats on the sea, lakes, rivers or canals (including carrier's liability).
7. Fire and other damage to property insurance
Insurance obligations which cover all damage to or loss of property other than those included in the *lines of business* 5 and 6 due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.
8. General liability insurance
Insurance obligations which cover all liabilities other than those in the *lines of business* 4 and 6.
9. Credit and suretyship insurance
Insurance obligations which cover insolvency, export credit, instalment credit, mortgages, agricultural credit and direct and indirect *suretyship*.
10. Legal expenses insurance
Insurance obligations which cover legal expenses and cost of litigation.
11. Assistance
Insurance obligations which cover assistance for *persons* who get into difficulties while travelling, while away from home or while away from their habitual residence.
12. Miscellaneous financial loss

Insurance obligations which cover employment risk, insufficiency of income, bad weather, loss of benefit, continuing general expenses, unforeseen trading expenses, loss of *market value*, loss of rent or revenue, indirect trading losses other than those mentioned above, other financial loss (non-trading) as well as any other risk of *general insurance business* not covered by the *lines of business* 1 to 11.

PART B: PROPORTIONAL GENERAL REINSURANCE OBLIGATIONS

- 13-24. The *lines of business* 13 to 24 must include proportional *reinsurance* obligations which relate to the obligations included in *lines of business* 1 to 12 respectively.

PART C: NON-PROPORTIONAL GENERAL REINSURANCE OBLIGATIONS

25. Non-proportional health *reinsurance*

Non-proportional *reinsurance* obligations relating to insurance obligations included in *lines of business* 1 to 3.

26. Non-proportional casualty *reinsurance*

Non-proportional *reinsurance* obligations relating to insurance obligations included in *lines of business* 4 and 8.

27. Non-proportional marine, aviation and transport *reinsurance*

Non-proportional *reinsurance* obligations relating to insurance obligations included in *line of business* 6.

28. Non-proportional property *reinsurance*

Non-proportional *reinsurance* obligations relating to insurance obligations included in *lines of business* 5, 7 and 9 to 12.

PART D: LONG-TERM INSURANCE BUSINESS OBLIGATIONS

29. Health insurance

Health insurance obligations where the underlying business is pursued on a similar technical basis to that of *long-term insurance business*, other than those included in *line of business* 33.

30. Insurance with profit participation

Insurance obligations with profit participation other than obligations included in *lines of business* 33 and 34.

31. Index-linked and unit-linked insurance

Insurance obligations with *index-linked benefits* and unit linked benefits other than those included in *lines of business* 33 and 34.

32. Other *long-term insurance business*

Long-term insurance business obligations other than those included in *lines of business* 29 to 31, 33 and 34.

33. Annuities stemming from *general insurance business* contracts and relating to *health insurance obligations*.

34. Annuities stemming from *general insurance business* contracts and relating to insurance obligations other than *health insurance obligations*.

PART E: LONG-TERM REINSURANCE OBLIGATIONS

35. Health *reinsurance*

Reinsurance obligations which relate to the obligations included in *lines of business* 29 and 33.

36. Long-term *reinsurance*

Reinsurance obligations which relate to the obligations included in *lines of business* 30 to 32 and 34.

Annex T

Amendments to the Third Country Branches Part

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

...

15 SOLVENCY II REGULATIONS~~[DELETED]~~

- 15.1 ~~A third country branch undertaking that has a third country pure reinsurance branch must comply with the Solvency II Regulations as at 1 January 2016 in the same way as they apply to a third country branch undertaking that has a third country insurance branch.~~~~[Deleted]~~
- 15.2 ~~In complying with requirements imposed on it in the Solvency II Firms Sector of the PRA Rulebook, a third country branch undertaking must ensure that any provisions of the Solvency II Regulations relevant to the third country branch is applied in order to achieve the same effect as that provision of the Solvency II Regulations would have (that is, complying with the requirements of the relevant provision) when applied to a UK Solvency II firm.~~~~[Deleted]~~

Annex U

Amendments to the Transitional Measures 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:

admissible insurance and reinsurance obligations

~~has the meaning set out in regulation 53(2) of the *Solvency 2 Regulations 2015*, where reference to rules implementing Article 20 of Directive 2002/83/EC until 1st January 2016 means INSPRU 1.1.16 R of the *PRA Handbook* as at 31 December 2015.~~

means insurance or *reinsurance* obligations that meet all of the following requirements:

- (1) the contracts that give rise to the insurance or *reinsurance* obligations are concluded before 1 January 2016;
- (2) the technical provisions for the insurance and *reinsurance* obligations are determined in accordance with INSPRU 1.1.16 R of the *PRA Handbook* as at 31 December 2015; and
- (3) the insurance or *reinsurance* obligations are not subject to a *matching adjustment permission*.

For the purposes of paragraph (1), the renewal of a contract does not give rise to a new contract.

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

...

3 REPORTING TO THE PRA AND PUBLIC DISCLOSURE

3.1 ~~A *firm* must submit under Reporting 2.1 and 2.2 the regular supervisory report and annual quantitative templates required to be submitted in accordance with the *Solvency II Regulations* and the annual *national specific templates* under Reporting 2.6 and 2.8(1) by no later than:~~

- ~~(1) 20 weeks after the *firm's* financial year end in relation to its financial year ending on or after 30 June 2016 before 1 January 2017;~~
- ~~(2) 18 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;~~
- ~~(3) 16 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019;~~
- ~~(4) 14 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2019 but before 1 January 2020. [Deleted]~~

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

...

3.3 ~~A *firm* must submit under Reporting 2.1 and 2.2 the quarterly quantitative templates required to be submitted in accordance with the *Solvency II Regulations* and the quarterly *national specific templates* under Reporting 2.8(2) by no later than:-~~

- ~~(1) 8 weeks related to any quarter ending on or after 1 January 2016 but before 1 January 2017;~~

~~(2) 7 weeks related to any quarter ending on or after 1 January 2017 but before 1 January 2018;~~

~~(3) 6 weeks related to any quarter ending on or after 1 January 2018 but before 1 January 2019;~~

~~(4) 5 weeks related to any quarter ending on or after 1 January 2019 but before 1 January 2020. [Deleted]~~

~~[Note: Art. 308b (7) of the Solvency II Directive]~~

3.4 ~~Where Group Supervision 2.1(1) or (2) applies, the submission under Group Supervision 17.3 of the group regular supervisory report and annual quantitative templates required to be submitted in accordance with the Solvency II Regulations must be made by no later than:~~

~~(1) 26 weeks after the financial year end of the participating UK Solvency II firm, ultimate insurance holding company or ultimate mixed financial holding company in relation to its financial year ending on or after 30 June 2016 but before 1 January 2017;~~

~~(2) 24 weeks after the financial year end of the participating UK Solvency II firm, ultimate insurance holding company or ultimate mixed financial holding company in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;~~

~~(3) 22 weeks after the financial year end of the participating UK Solvency II firm, ultimate insurance holding company or ultimate mixed financial holding company in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019; and~~

~~(4) 20 weeks after the financial year end of the participating UK Solvency II firm, ultimate insurance holding company or ultimate mixed financial holding company in relation to its financial year ending on or after 1 January 2019 but before 1 January 2020. [Deleted]~~

~~[Note: Art. 308b (8) of the Solvency II Directive]~~

...

3.6 ~~Where Group Supervision 2.1(1) or (2) applies, the submission under Group Supervision 17.3 of the quarterly quantitative templates required to be submitted in accordance with the Solvency II Regulations must be made by no later than:~~

~~(1) 14 weeks related to any quarter ending on or after 1 January 2016 but before 1 January 2017;~~

~~(2) 13 weeks related to any quarter ending on or after 1 January 2017 but before 1 January 2018;~~

~~(3) 12 weeks related to any quarter ending on or after 1 January 2018 but before 1 January 2019;~~

~~(4) 11 weeks related to any quarter ending on or after 1 January 2019 but before 1 January 2020. [Deleted]~~

~~[Note: Art. 308b (8) of the Solvency II Directive]~~

...

5 STANDARD FORMULA: THE BASIC SCR

...

5.2 ~~Notwithstanding Solvency Capital Requirement — General Provisions 2, 3.1, 3.3, 3.4 and Solvency Capital Requirement — Standard Formula 3.1 to 3.3, the standard parameters to be used for equities that a firm purchased on or before 1 January 2016, when calculating the~~

~~equity risk sub-module in accordance with the *standard formula*, must be calculated as the weighted averages of:~~

- ~~(1) the standard parameter to be used when calculating the equity risk sub-module in accordance with 5.4; and~~
- ~~(2) the standard parameter to be used when calculating the equity risk sub-module in accordance with the *standard formula*.[Deleted]~~

~~[Note: Art. 308b (13) of the *Solvency II Directive*]~~

- 5.3 The weight for the parameter expressed in 5.2(2) must increase at least linearly at the end of each year from 0% during 2016 to 100% from 1 January 2023.[Deleted]

~~[Note: Art. 308b (13) of the *Solvency II Directive*]~~

- 5.4 The equity risk sub-module for the purpose of 5.2(1) must be calibrated using a Value-at-Risk measure, over a time period, which is consistent with the typical holding period of equity investments for the *firm* concerned, with a confidence level providing the *policyholders* with a level of protection equivalent to that set out in Solvency Capital Requirement—General Provisions 3.2 to 3.5.[Deleted]

~~[Note: Art. 308b (13) of the *Solvency II Directive*]~~

...

10 RISK-FREE INTEREST RATES

- 10.1 A *firm* may only apply the *risk-free interest rate transitional measure*:
- (1) in respect of *admissible insurance and reinsurance obligations*; and
 - (2) if it has received ~~approval~~permission to do so from the *PRA* pursuant to section 138BA of *FSMA*.

...

Annex V

Amendments to the Undertakings in Difficulty Part

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

...

3 NON-COMPLIANCE WITH THE SCR

3.1 ...

- (3) take the measures necessary to achieve, within six *months* (or such longer period as the firm is permitted by the PRA pursuant to section 138A or 138BA of FSMA as the case may ~~be~~ determine) from the observation of non-compliance with the SCR, the re-establishment of the level of *eligible own funds* covering the SCR or the reduction of its risk profile to ensure compliance with the SCR.

[Note: Art. 138(1)–(3) of the *Solvency II Directive*]

3.2 ~~If the PRA has extended the period referred to in 3.1(3), by reason of the declaration;~~

- (1) ~~before IP completion day by EIOPA; or~~[deleted]
 (2) ~~on or after IP completion day by the PRA pursuant to regulation 4A of the Solvency 2 Regulations;~~[deleted]

If the PRA has extended the period referred to in 3.1(3), by reason of the declaration by the PRA of an exceptional adverse situations affecting the firm, the firm must submit a progress report to the PRA every three months setting out the measures taken and the progress made to re-establish the level of *eligible own funds* covering the SCR or to reduce its risk profile to ensure compliance with the SCR.

...

Annex W

Amendments to the Valuation Part

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

...

3 VALUATION ASSUMPTIONS

- 3.1 A firm must value assets and liabilities based on the assumption that the firm will pursue its business as a going concern.

4 SCOPE

- 4.1 5 to 12 apply to the recognition and valuation of assets and liabilities, other than technical provisions.

5 VALUATION METHODOLOGY - GENERAL PRINCIPLES

- 5.1 A firm must recognise assets and liabilities in conformity with UK-adopted international accounting standards.
- 5.2 A firm must value assets and liabilities in accordance with UK-adopted international accounting standards provided that those standards include valuation methods that are consistent with the valuation approach set out in 2. Where those standards allow for the use of more than one valuation method, a firm must only use valuation methods that are consistent with 2.
- 5.3 Where the valuation methods included in UK-adopted international accounting standards are not consistent either temporarily or permanently with the valuation approach set out in 2, a firm must use other valuation methods that are consistent with 2.
- 5.4 By way of derogation from 5.1 and 5.2, a firm may recognise and value an asset or a liability based on the valuation method it uses for preparing its annual or consolidated financial statements provided that:
- (1) the valuation method is consistent with 2;
 - (2) the valuation method is proportionate with respect to the nature, scale and complexity of the risks inherent in the business of the firm;
 - (3) the firm does not value that asset or liability using UK-adopted international accounting standards in its financial statements; and
 - (4) valuing assets and liabilities using international accounting standards would impose costs on the firm that would be disproportionate with respect to the total administrative expenses.
- 5.5 A firm must value individual assets separately.
- 5.6 A firm must value individual liabilities separately.

6 VALUATION METHODOLOGY – VALUATION HIERARCHY

- 6.1 A firm must, when valuing assets and liabilities in accordance with 5.1, 5.2 and 5.3, follow the valuation hierarchy set out in 6.2 to 6.7, taking into account the characteristics of the asset or liability where market participants would take those characteristics into account when pricing

the asset or liability at the valuation date, including the condition and location of the asset or liability and restrictions, if any, on the sale or use of the asset.

- 6.2 As the default valuation method a *firm* must value assets and liabilities using quoted market prices in active markets for the same assets or liabilities.
- 6.3 Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, a *firm* must value assets and liabilities using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences. Those adjustments must reflect factors specific to the asset or liability including all of the following:
- (1) the condition or location of the asset or liability;
 - (2) the extent to which inputs relate to items that are comparable to the asset or liability; and
 - (3) the volume or level of activity in the markets within which the inputs are observed.
- 6.4 A *firm*'s use of quoted market prices must be based on the criteria for an active market, as defined in *UK-adopted international accounting standards*.
- 6.5 Where the criteria referred to in 6.4 are not satisfied, a *firm* must use *alternative valuation methods*.
- 6.6 When using *alternative valuation methods*, a *firm* must rely as little as possible on *undertaking-specific* inputs and make maximum use of relevant market inputs including the following:
- (1) quoted prices for identical or similar assets or liabilities in markets that are not active;
 - (2) inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and
 - (3) market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

All market inputs must be adjusted for the factors referred to in 6.3.

To the extent that relevant observable inputs are not available including in circumstances where there is little, if any, market activity for the asset or liability at the valuation date, a *firm* must use unobservable inputs reflecting the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Where unobservable inputs are used, a *firm* must adjust *undertaking-specific* data if reasonable available information indicates that other market participants would use different data or there is something particular to the *firm* that is not available to other market participants.

When assessing the assumptions about risk referred to in this paragraph a *firm* must take into account the risk inherent in the specific valuation technique used to measure fair value and the risk inherent in the inputs of that valuation technique.

- 6.7 A *firm* must use valuation techniques that are consistent with one or more of the following approaches when using *alternative valuation methods*:
- (1) market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing;
 - (2) income approach, which converts future amounts, such as cash-flows or income or expenses, to a single current amount. The fair value must reflect current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method; and

- (3) cost approach or current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable quality adjusted for obsolescence.

7 RECOGNITION OF CONTINGENT LIABILITIES

- 7.1 A firm must recognise contingent liabilities, as defined in accordance with *UK-adopted international accounting standards*, that are material, as liabilities.
- 7.2 Contingent liabilities are material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including a *supervisory authority*.
- 7.3 The obligation to recognise material contingent liabilities in 7.1 applies irrespective of whether a liability is required to be recognised in accordance with *UK-adopted international accounting standards*.

8 VALUATION METHODS FOR GOODWILL AND INTANGIBLE ASSETS

- 8.1 A firm must value the following assets at zero:
- (1) goodwill; and
 - (2) intangible assets other than goodwill, unless the intangible asset can be sold separately and the *firm* can demonstrate that there is a value for the same or similar assets that has been derived in accordance with 6.2, in which case the asset must be valued in accordance with 6.

9 VALUATION METHODS FOR RELATED UNDERTAKINGS

- 9.1 For the purposes of valuing the assets of individual *insurance undertakings* and *reinsurance undertakings*, a firm must value holdings in *related undertakings*, in accordance with the following hierarchy of methods:
- (1) the default valuation method set out in 6.2;
 - (2) the adjusted equity method referred to in 9.3 where valuation in accordance with point (1) is not possible;
 - (3) either the valuation method set out in 6.3 or *alternative valuation methods* in accordance with 6.5 provided that both of the following conditions are fulfilled:
 - (a) neither valuation in accordance with (1) nor (2) is possible; and
 - (b) the *undertaking* is not a *subsidiary undertaking*.
- 9.2 By way of derogation from 9.1, for the purposes of valuing the assets of individual *insurance undertakings* and *reinsurance undertakings*, a firm must value holdings in the following *undertakings* at zero:
- (1) *undertakings* that are excluded from the scope of the group supervision under Group Supervision 2.3; and
 - (2) *undertakings* that are deducted from the *own funds* eligible for the *group solvency* in accordance with Group Supervision 10.6.

- 9.3 The adjusted equity method referred to in 9.1(2) requires the *participating undertaking* to value its holdings in *related undertakings* based on the share of the excess of assets over liabilities of the *related undertaking* held by the *participating undertaking*.
- 9.4 When calculating the excess of assets over liabilities for a *related undertaking*, the *participating undertaking* must value the *undertaking's* individual assets and liabilities in accordance with:
- (1) 2; and
 - (2) if the *related undertaking* is:
 - (a) required to calculate *technical provisions* in accordance with the Technical Provisions Part, Matching Adjustment Part, Conditions Governing Business Part and Solvency Capital Requirement – General Provisions Part; or
 - (b) a *special purpose vehicle*;
- also in accordance with the *technical provisions* in the Technical Provisions Part, Matching Adjustment Part, Conditions Governing Business Part and Solvency Capital Requirement – General Provisions Part.
- 9.5 When calculating the excess of assets over liabilities for *related undertakings* other than *insurance undertakings* or *reinsurance undertakings*, the *participating undertaking* may consider the equity method as prescribed in *UK-adopted international accounting standards* to be consistent with 2, where valuation of individual assets and liabilities in accordance with 9.4 is not practicable. In such cases, the *participating undertaking* must deduct from the value of the *related undertaking* the value of goodwill and other intangible assets that would be valued at zero in accordance with 8.1(2).
- 9.6 Where the criteria referred to in 5.4 are satisfied, and where the use of the valuation methods referred to in 9.1(1) and (2) is not possible, holdings in *related undertakings* may be valued based on the valuation method the *firm* uses for preparing its annual or consolidated financial statements. In such cases, the *participating undertaking* must deduct from the value of the *related undertaking* the value of goodwill and other intangible assets that would be valued at zero in accordance with 8.1(2).

10 VALUATION METHODS FOR SPECIFIC LIABILITIES

- 10.1 A *firm* must value financial liabilities, as referred to in *UK-adopted international accounting standards*, in accordance with 5 upon initial recognition. A *firm* must not make any subsequent adjustment to take account of the change in own credit standing of the *firm* after initial recognition.
- 10.2 A *firm* must value contingent liabilities that have been recognised in accordance with 7. The value of contingent liabilities must be equal to the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the *basic relevant risk-free interest rate term structure*.

11 DEFERRED TAXES

- 11.1 A *firm* must recognise and value deferred taxes in relation to all assets and liabilities, including *technical provisions*, that are recognised for solvency or tax purposes in accordance with 5.
- 11.2 Notwithstanding 11.1, a *firm* must value deferred taxes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with 2 and in the case of *technical provisions* in accordance with Technical Provisions Part, Matching Adjustment Part, Conditions Governing Business Part,

Solvency Capital Requirement – General Provisions Part and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

- 11.3 A firm may only ascribe a positive value to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses or the carry forward of unused tax credits.

12 EXCLUSION OF VALUATION METHODS

- 12.1 A firm must not value financial assets or financial liabilities at cost or amortised cost.
- 12.2 A firm must not apply valuation models that value at the lower of the carrying amount and fair value less costs to sell.
- 12.3 A firm must not value property, investment property, plant and equipment with cost models where the asset value is determined as cost less depreciation and impairment.
- 12.4 A firm which is a lessee in a financial lease or a lessor must comply with all of the following when valuing assets and liabilities in a lease arrangement:
- (1) lease assets must be valued at fair value;
 - (2) for the purposes of determining the present value of the minimum lease payments, market consistent inputs must be used and a firm must not make subsequent adjustments to take account of the own credit standing of the undertaking; and
 - (3) valuation at depreciated cost must not be applied.
- 12.5 A firm must adjust the net realisable value for inventories by the estimated cost of completion and the estimated costs necessary to make the sale where those costs are material. Those costs are to be considered material where their non-inclusion could influence the decision-making or the judgement of the users of the balance sheet, including a supervisory authority. Valuation at cost must not be applied.
- 12.6 A firm must not value non-monetary grants at a nominal amount.
- 12.7 When valuing biological assets, a firm must adjust the value by adding the estimated costs to sell if the estimated costs to sell are material.

EXTERNALLY DEFINED TERMS

Term	Definition source
month	Schedule 1, Interpretation Act 1978
person	Schedule 1, Interpretation Act 1978
Treasury	Schedule 1, Interpretation Act 1978

PRA RULEBOOK: CRR FIRMS: SDDT REGIME (INTERIM CAPITAL REGIME) 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); and
 - (3) section 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) of the Act (Rule-making instruments).

PRA Rulebook: CRR Firms: SDDT Regime (Interim Capital Regime) Instrument 2024

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

Part	Annex
Glossary	A
SDDT Regime – General Application	B

Commencement

- D. This instrument comes into force on 29 November 2024.

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: SDDT Regime (Interim Capital Regime) Instrument 2024.

By order of the Prudential Regulation Committee

26 November 2024

Annex A

Amendments to the Glossary Part

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

...

ICR consolidation entity

has the meaning given in SDDT Regime – General Application 4.2.

ICR firm

has the meaning given in SDDT Regime – General Application 4.1.

...

Annex B

Amendments to the SDDT Regime – General Application Part

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

...

4 INTERIM CAPITAL REGIME

- 4.1 An ICR firm means a UK bank or building society to which the PRA has given a waiver modifying the effect of this rule such that the UK bank or building society is an ICR firm.
- 4.2 An ICR consolidation entity means a CRR consolidation entity to which the PRA has given a waiver modifying the effect of this rule such that it is an ICR consolidation entity.
- 4.3 If a firm consents to a waiver modifying 4.1 such that the firm becomes an ICR firm, the firm must certify to the PRA that, as of the day of giving consent, the firm meets the SDDT criteria.
- 4.4 If an ICR firm ceases to meet the SDDT criteria, it must notify the PRA within the period of 14 days beginning with the day on which the firm ceases to meet the SDDT criteria.
- 4.5 If a CRR consolidation entity consents to a waiver modifying 4.2 such that the CRR consolidation entity becomes an ICR consolidation entity, the CRR consolidation entity must certify to the PRA that, as of the day of giving consent, the SDDT consolidation criteria are satisfied.
- 4.6 If the SDDT consolidation criteria cease to be satisfied, the ICR consolidation entity must notify the PRA within the period of 14 days beginning with the day on which the SDDT consolidation criteria cease to be satisfied.

PRA RULEBOOK: SOLVENCY II FIRMS AND NON-SOLVENCY II FIRMS: PREPARATIONS FOR SOLVENT EXIT 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); and
 - (2) section 137T (General supplementary powers).
- 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 Firms and Non-Solvency II Firms: Preparations for Solvent Exit Instrument 2024

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

Commencement

- D. This instrument comes into force on 30 June 2026.

Citation

- E. This instrument may be cited as the PRA Rulebook: Solvency II Firms and Non-Solvency II Firms: Preparations for Solvent Exit Instrument 2024.

By order of the Prudential Regulation Committee
25 September 2024

Annex

Preparations for Solvent Exit Part

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

Part

PREPARATIONS FOR SOLVENT EXIT

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PREPARATIONS FOR SOLVENT EXIT**

1 APPLICATION AND DEFINITIONS

1.1 Subject to 1.2, this Part applies to:

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

1.2 *Passive run-off firms* are excluded from 1.1.

1.3 In this Part, the following definitions shall apply:

passive run-off firm

means a *firm*:

- (1) which has ceased *effecting contracts of insurance*;
- (2) whose *Part 4A permission for effecting contracts of insurance* has been cancelled; and
- (3) which is not a *run-off acquirer*.

run-off acquirer

means a *firm* which acquires and carries out *contracts of insurance* in run-off.

solvent exit

means the process through which a *firm* ceases its *insurance business* while remaining solvent.

solvent exit analysis

means a document setting out a *firm's* preparations for *solvent exit*.

2 PREPARATIONS FOR SOLVENT EXIT

2.1 A *firm* must:

- (1) prepare for *solvent exit* so that, if the need arises, it can effect a *solvent exit* in an orderly manner;
- (2) produce a *solvent exit analysis* and update it whenever a material change has taken place that may affect its preparations for a *solvent exit*, and at least once every three years;
- (3) where it is a *UK Solvency II firm* which is part of a *group*, take into account in its *solvent exit analysis* the implications of, and any risk arising from, being part of the *group*; and
- (4) be able to provide to the *PRA* on request the current version of its *solvent exit analysis*.

PRA RULEBOOK: SII FIRMS: SOLVENCY II AMENDMENT (NO 1) 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); and
 - (2) section 137T (General supplementary powers).
- 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: SII Firms: Solvency II Amendment (No 1) Instrument 2024

- C. The PRA Rulebook: SII Firms: Solvency II Instrument 2024 made amendments to the Solvency Capital Requirement - Standard Formula Part to come into force on 31 December 2024.
- D. The PRA makes amendments to rules inserted into the Solvency Capital Requirement - Standard Formula Part by the PRA Rulebook: Solvency II Instrument 2024 in the Annex to this instrument.

Commencement

- E. This instrument comes into force on 31 December 2024.

Citation

- F. This instrument may be cited as the PRA Rulebook: SII Firms: Solvency II Amendment (No 1) Instrument 2024.

By order of the Prudential Regulation Committee

17 December 2024

Annex

Amendments to the Solvency Capital Requirement – Standard Formula Part

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

...

3B LIFE UNDERWRITING RISK MODULE

...

3B6 LIFE LAPSE RISK SUB-MODULE

...

6. A *firm* must calculate the capital requirement for mass *lapse risk* as equal to the loss in its *basic own funds* that would result from a combination of the following instantaneous events:
 - (1) the *discontinuance* of 70% of the insurance *policies* falling within the scope of operations referred to with *Regulated Activities Order* Schedule 1, Part II, class VII and ~~*Regulated Activities Order* Schedule 1, Part II, class III~~ for which *discontinuance* would result in an increase in *technical provisions* without the *risk margin* and where one of the following requirements are met:

...

PRA RULEBOOK: CRR FIRMS: RESOLUTION ASSESSMENT AMENDMENT 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); and
 - (2) section 137T (General supplementary powers).
- 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: CRR Firms: Resolution Assessment Amendment Instrument 2024

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

Commencement

- D. This instrument comes into force on 10 January 2025.

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Resolution Assessment Amendment Instrument 2024.

By order of the Prudential Regulation Committee

17 December 2024

Annex

Amendments to the Resolution Assessment Part

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

...

3 REPORT

3.1 A *firm* must submit to the *PRA* a report in writing of the assessment in 2.1 ~~by~~ on a periodic basis.

(1) ~~the first Friday in October 2021; and~~[deleted]

(2) ~~biennially thereafter, by the first Friday in October of the relevant calendar year.~~[deleted]

...

4 DISCLOSURE

4.1 A *firm* must publish ~~by the following dates~~ a summary of the most recent report submitted to the *PRA* under Chapter 3: on a periodic basis.

(1) ~~the second Friday in June 2022; and~~[deleted]

(2) ~~the second Friday in June of each calendar year following the year in which a *firm* is required to submit a report under 3.1(2).~~[deleted]