



Update on insurance special purpose vehicles, following HM Treasury's release of its updated Risk Transformation Regulations 2017

On 20 July 2017 HM Treasury published a response following its consultation in November 2016 on a new regulatory and tax framework for insurance linked securities in the United Kingdom. HM Treasury also published its updated version of The Risk Transformation Regulations 2017.¹

In November 2016, the PRA and Financial Conduct Authority (FCA) also published an associated joint consultation paper (CP42/16) on the authorisation and supervision of insurance special purpose vehicles (ISPVs).² Later this year, the PRA and FCA intend to publish their approach to the authorisation and supervision of ISPVs, which will also include details of the feedback received in response to CP42/16.

The HM Treasury response and updated Regulations published today reflect a change to the proposed UK regulatory regime for ISPVs since the publication of CP42/16. CP42/16 included a proposal to require pre-transaction notification to the PRA where a multi-arrangement insurance special purpose vehicle (MISPV) intended to create additional cells. Respondents to the consultations identified some potential difficulties with the pre-transaction notification proposal. Since the November consultation, further work has been undertaken by HM Treasury and the PRA to explore alternatives to the proposed approach, while ensuring that Solvency II requirements continue to be met.

Under the new approach set out by HM Treasury³ in the response and updated Regulations, the PRA would authorise the MISPV's scope of activities, including the parameters within which future cells may be established, and the scope of the firm's permission will be limited on this basis. Provided that a new proposed cell is in line with those activities agreed with the PRA, a post-transaction notification process will be adopted, whereby the PRA is notified within five working days of the vehicle assuming a new risk. Further details will be communicated in the PRA's response to CP42/16.

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¹ These Regulations are now final subject to their passage through parliament.

² Available at: www.bankofengland.co.uk/pru/Pages/publications/cp/2016/cp4216.aspx.

³ Available at: www.gov.uk/government/consultations/regulations-implementing-a-new-regulatory-and-tax-framework-for-insurance-linked-securities.