

**Bank of England PRA**

# Solvency II: The PRA's approach to Standard Formula adaptations

## Statement of policy

November 2024





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# 1: Introduction

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1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA's) approach to adaptations relating to the Standard Formula, which is the default methodology for the calculation of the Solvency Capital Requirement (SCR) by UK Solvency II firms, as set out in the PRA Rulebook.

1.2 This SoP covers the PRA's approach to the following topics:

- (a) undertaking specific parameter (USP) and group specific parameter (GSP) permissions;
- (b) investments in a securitisation; and
- (c) permissions relating to the adjustment for loss-absorbing capacity of deferred taxes (LACDT).

1.3 This SoP is relevant to all UK Solvency II firms, the Society of Lloyd's and its members and managing agents, referred to collectively as 'firms'. It is most relevant to firms that use the Standard Formula to calculate their SCRs.

1.4 This SoP should be read in conjunction with the SCR-Standard Formula and SCR-Undertaking Specific Parameters Parts of the PRA Rulebook and the PRA's approach to insurance supervision.<sup>1, 2</sup>

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<sup>1</sup> The relevant PRA Rulebook Parts: Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, and Solvency Capital Requirement – Undertaking Specific Parameters.

<sup>2</sup> Available at: [www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors](https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors).



## 2: Undertaking specific parameter and group specific parameter permissions

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### Overview

2.1 This chapter sets out the PRA's approach to considering applications and granting regulatory permissions for the use of USPs and GSPs to replace certain standard parameters in the Standard Formula for the purposes of calculating the SCR, as well as variations to those permissions. It also sets out the PRA's supervisory approach to the variation and revocation of such permissions.

2.2 When granting these permissions, the PRA would exercise its powers under section 138BA of the Financial Services and Markets Act 2000 (FSMA) to grant a permission that modifies the Solvency Capital Requirement – Standard Formula (SCR-SF) and Solvency Capital Requirement – Undertaking Specific Parameters (SCR-USPs) Parts of the PRA Rulebook, to permit a firm to use a USP (or to modify the Group Supervision Part for a group to use a GSP).

2.3 This chapter is relevant to firms that have a USP permission, and to groups that have a GSP permission, to replace a standard parameter of the Standard Formula with a parameter specific to the firm or group, respectively. It is also relevant for firms and groups considering applying for permission to use a USP or GSP, respectively. The content of this chapter applies equally to permissions for a firm to use a USP and for a group to use a GSP. That is, any reference to USP should also be interpreted as also applying to GSP, unless otherwise specified. Group-specific considerations pertaining to GSP permissions are set out in paragraphs 2.31 to 2.35 below.

2.4 The PRA reminds firms of its expectations as regards their continued compliance with the European Insurance and Occupational Pensions Authority's Guidelines on USPs.<sup>3</sup>

### Scope of USPs

2.5 The terms USP and GSP, as defined in the PRA Rulebook Glossary and Group Supervision Part respectively, mean, for the purposes of determining the SCR and Group SCR using the Standard Formula, a parameter specific to a firm or Group that replaces a

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<sup>3</sup> The PRA set its expectations regarding the Guidelines on undertaking-specific parameters: [www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gi-undertaking-specific-parameters.pdf](http://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gi-undertaking-specific-parameters.pdf) in line with the approach described in the PRA SoP: [www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop](http://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop).



standard parameter of the Standard Formula (within a subset of parameters used in the life underwriting risk module, non-life underwriting risk module, or health underwriting risk module). The terms 'USP Permission' and 'GSP Permission' are also defined in the PRA Rulebook Glossary and Group Supervision Parts.<sup>4</sup>

2.6 In line with rule 2.3 of the SCR-USPs Part of the PRA Rulebook, the PRA will consider applications for USP Permissions in respect of standard parameters of the Standard Formula as set out in the following table:

Standard parameter in respect of which the firm may apply for a USP Permission	Corresponding applicable USP method
in the non-life premium and reserve risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3A1, for each segment set out in Solvency Capital Requirement – Standard Formula 3A3	
the standard deviation for non-life premium risk	premium risk method
the standard deviation for non-life gross premium risk	premium risk method
the adjustment factor for non-proportional reinsurance (non-life)	(1) where there is a recognisable excess of loss reinsurance contract, non-proportional reinsurance method 1; and (2) where there is a recognisable stop loss reinsurance contract, non-proportional reinsurance method 2
the standard deviation for non-life reserve risk	reserve risk method 1 or reserve risk method 2
in the life revision risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3B5	
the increase in the amount of annuity benefits (life)	revision risk method

<sup>4</sup> USP Permission means the permission to apply an undertaking specific parameter granted to a firm by the PRA pursuant to s138BA of FSMA. GSP Permission means the permission to apply a group specific parameter granted to a firm by the PRA pursuant to section 138BA of FSMA.



in the NSLT health premium and reserve risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3C2, for each segment set out in Solvency Capital Requirement – Standard Formula 3C4	
the standard deviation for NSLT health premium risk	premium risk method
the standard deviation for NSLT health gross premium risk	premium risk method
the adjustment factor for non-proportional reinsurance (NSLT health)	(1) where there is a recognisable excess of loss reinsurance contract, non-proportional reinsurance method 1; and (2) where there is a recognisable stop loss reinsurance contract, non-proportional reinsurance method 2
the standard deviation for NSLT health reserve risk	reserve risk method 1 or reserve risk method 2
in the health revision risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3C15	
the increase in the amount of annuity benefits (health)	revision risk method

2.7 Firms considering making an application should note that rule 2.5 in the SCR-USPs Part of the PRA Rulebook does not permit the replacement of both of the following standard parameters of the same segment, for each segment set out in SCR-SF 3A3:

- the standard deviation for non-life gross premium risk; and
- the adjustment factor for non-proportional reinsurance (non-life).

2.8 In addition, firms considering making an application should note that rule 2.5 in the SCR-USPs Part in the PRA rulebook does not permit the replacement of both of the following standard parameters of the same segment, for each segment set out in SCR-SF 3C4:

- the standard deviation for NSLT health gross premium risk; and
- the adjustment factor for non-proportional reinsurance (health).

2.9 As set out in SCR-USPs 7.1(2), for the purposes of the parameters for the life revision risk sub-module and health revision risk sub-module the PRA will consider inflation risk to be



material where ignoring it in the calculation of the capital requirement of those sub-modules could influence the decision-making or the judgement of the users of that information, including the PRA and Financial Conduct Authority (FCA).

## Application for a USP Permission

2.10 A firm should submit an application for USP Permission to the PRA in writing. The application should be made in accordance with any relevant procedural requirements under s138BA FSMA and should incorporate all relevant documentary evidence. The application should include confirmation that it contains all information that the firm considers necessary for the PRA to make a decision on the application.

2.11 The application for USP Permission should contain the following information relating to each standard parameter of the Standard Formula that the firm wishes to replace with a parameter specific to the firm:

- (a) documentary evidence of the firm's internal decision-making process related to the application;
- (b) a specific start date from which the use of the USP is requested;
- (c) details of the standard parameter which is to be replaced by the USP;
- (d) for each segment, the USP method used and the USP value obtained by using that method;<sup>5</sup>
- (e) the calculation of the USP the firm is applying to use and information demonstrating that the calculation is adequate;
- (f) evidence that data used to calculate the USP are complete, accurate, and appropriate and fulfil the requirements in respect of data criteria set out in Chapter 3 of the SCR-USPs Part of the PRA Rulebook; and
- (g) a justification that each USP method used to calculate the USP for a single segment provides the most accurate result for the purposes of fulfilling the calibration requirements set out in Solvency Capital Requirement – General Provisions 3.2 to 3.5. When demonstrating the accuracy of the results, a firm should assess whether the USP method is appropriate for its data, whether its assumptions are fulfilled, and whether data are relevant to the firm's risk profile.

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<sup>5</sup> The term 'USP method' as defined in the PRA Rulebook Glossary 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.



2.12 Firms are encouraged to submit the supplementary information form provided on the PRA's website,<sup>6</sup> as this will help to ensure firms meet the requirements in the SCR-USPs Part of the PRA Rulebook.

2.13 In addition to the material specified in the preceding paragraphs, the application should also list any of the following additional applications submitted by the firm to the PRA or currently anticipated within the next 6 months, together with the corresponding application dates:

- applications relating to Solvency II permissions for consideration under s138BA of FSMA; and
- applications relating to special purpose vehicles to be established to carry out the regulated activity specified in article 13A of the Regulated Activities Order.

## Assessment of the application

2.14 The PRA will confirm receipt of a firm's application for USP Permission.

2.15 The PRA will inform the firm of the status of the application and whether it is complete or incomplete. The PRA will consider a USP Permission application to be complete if it includes all information and the documentary evidence set out in paragraphs 2.11 and 2.13 above. Where the PRA determines that an application is not complete, it will specify the reasons why that is the case.

2.16 Where the PRA has confirmed an application to be complete, this will not prevent the PRA from requesting additional information necessary for carrying out its assessment. The PRA will specify any additional information required and the reasons for the request.

2.17 When assessing an application, the PRA may request the firm to make adjustments to the way it proposes to apply a USP. Where the PRA determines that it could be possible to grant permission for the use of a USP subject to adjustments being made, it will notify the firm of those adjustments in writing.

2.18 The PRA expects to determine the outcome of a complete application within 6 months from the date of receipt of the application and will provide the firm with a written notice of that determination.

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<sup>6</sup> Available at: [www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/solvency-ii-approvals/supplementary-info-for-applications-to-use-undertaking-specific-parameters](http://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/solvency-ii-approvals/supplementary-info-for-applications-to-use-undertaking-specific-parameters).



2.19 A firm should inform the PRA of any change to the details of its application. Where this is the case, the PRA will treat it as a new application unless:

- (a) the change is due to a request from the PRA for additional information or adjustments; or
- (b) the PRA is satisfied that the change does not significantly affect its assessment of the application.

## **PRA assessment of the choice of the parameter and the method to calculate the parameter**

2.20 The PRA will assess a firm's choice of:

- (a) the parameter(s) to be replaced by considering whether the use of USP(s) better reflects the firm's underwriting risk profile; and
- (b) the segments for which parameter(s) have been calculated by considering whether the use of USP(s) better reflects the firm's underwriting risk profile.

2.21 The PRA will also consider the reasons why a firm has applied for a USP Permission and whether the information provided in its application demonstrates that it is capable of implementing the USP(s) appropriately across its business.

2.22 In addition, where relevant the PRA will assess the firm's justification for the choice of USP method to calculate a USP. When performing this assessment, the PRA will consider whether the assumptions underlying the USP method are satisfied and whether data are relevant to the firm's risk profile.

## **Criteria for granting of USP Permissions**

2.23 The PRA expects to only grant a USP Permission when:

- (a) it is satisfied with a firm's justification for replacing a standard parameter of the Standard Formula with a parameter specific to the firm;
- (b) the parameter for which the firm has applied to use a USP is calibrated using the applicable USP method, on the basis of the internal data of the firm concerned, or on the basis of data which are directly relevant to the operations of the firm; and
- (c) the PRA is satisfied that the data used to calculate a USP are complete, accurate, and appropriate. The PRA will consider data used to calculate a USP to be complete,



accurate, and appropriate only where they comply with the requirements set out in SCR-USPs 3.2 to 3.3 and the relevant USP method-specific data requirements.

## Decision on the application

2.24 When the PRA has reached a decision on an application, it will notify the firm in writing with its decision. The written notice will specify:

- (a) where the PRA grants permission, the scope of the permission and the starting date from which the USP can be used; and
- (b) where the PRA does not grant the permission, the reasons on which the decision is based.

2.25 The PRA may decide to grant a USP Permission in respect of some but not all of the segments or parameters included in an application.

## The PRA's powers to vary or revoke USP Permission

2.26 The PRA's power to grant permissions under s138BA of FSMA permits the PRA to vary or revoke permissions.

2.27 Where the PRA grants a USP Permission, a firm may apply to vary the permission. A firm should include within its application any information set out in paragraphs 2.10 to 2.13 above that is relevant to the variation request. The PRA will assess the application in line with paragraphs 2.14 to 2.22 above. The PRA will consider varying the permission pursuant to the firm's application, provided points (a) to (c) of paragraph 2.23 above continue to be satisfied. In reaching a decision on the application, the PRA will follow the approach described in paragraphs 2.24 to 2.25 above.

2.28 Circumstances in which the PRA may revoke a firm's USP Permission include:

- (a) where the firm ceases to comply with the permission criteria set out in paragraph 2.23 or the requirements in Solvency Capital Requirement – General Provisions 3.2 to 3.5; and
- (b) where the firm applies for a revocation of its USP Permission to revert to the standard parameter of the Standard Formula, stating the reasons for the inappropriateness of the USP and providing documentary evidence to support its request.



## Significant deviations from the assumptions underlying the Standard Formula

2.29 Where it is inappropriate for a firm to calculate its SCR in accordance with the Standard Formula, because its risk profile deviates significantly from the assumptions underlying the Standard Formula calculation, then the PRA may:

- (a) consider setting a capital add-on;<sup>7</sup>
- (b) require the firm to replace one or more of the standard parameters used in the Standard Formula (set out in paragraph 2.6 above) with USP(s) specific to the firm; or
- (c) require the firm to develop an Internal Model to calculate its SCR, or a partial Internal Model to calculate some risk modules of its SCR.

2.30 In the circumstances described in paragraph 2.29, any action taken by the PRA would be proportionate and depend on the case-specific circumstances.

## Application for permission to use a GSP

2.31 The PRA will consider an application to replace a standard parameter of the Standard Formula with a parameter specific to a group (ie a GSP) in respect of the same parameters set out in paragraph 2.6 for USP Permissions.

2.32 An application for permission to use a GSP should include at a minimum the information listed in paragraphs 2.10 to 2.13 above, where any reference to USP should be understood as a reference to GSP, and any reference to 'firm' should be understood as a reference to the group undertaking submitting the application on behalf of the group.

2.33 Where an application is made for permission to use a GSP, the Group undertaking should be able to demonstrate to the PRA that the nature of the group's business and its risk profile are sufficiently similar to those of the individual firms providing the data, to ensure consistency between the statistical assumptions underlying the data used at the individual entity level and at group level.

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<sup>7</sup> Available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/solvency-ii-capital-add-ons-sop>.



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## Scope of GSP use

2.34 When a group uses either method 1 or a combination of method 1 and method 2 to calculate its group SCR, the relevant group undertaking should only use that GSP based on consolidated data calculated in accordance with Group Supervision 11.1A – 11.1 C.

2.35 If an undertaking within the scope of the group solvency calculation under method 2 has permission to use a USP, then the USP should only be included in the group SCR calculation for those undertakings which have received permission from the relevant supervisory authorities.



## 3: Investments in a Securitisation

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3.1 This chapter sets out the PRA's approach to imposing a proportionate increase to a firm's SCR when it becomes aware of non-compliance with due diligence requirements set out in either Articles 5(1), (2), and (3) of Chapter 2 or in Chapter 3 of the Securitisation Part of the PRA Rulebook by a firm which holds a securitisation position and uses the Standard Formula to calculate the capital requirement for spread risk in accordance with rule 3D21 in the Solvency Capital Requirement – Standard Formula (SCR-SF) Part of the PRA Rulebook. This chapter is relevant to firms that currently hold securitisation positions or are considering holding securitisation positions and use the Standard Formula to calculate the capital requirement for spread risk in accordance with SCR-SF 3D21.

### SCR consequences of failure to comply with securitisation requirements

3.2 The PRA will consider imposing a proportionate increase to a firm's SCR where the firm:

- holds securitisation positions;
- uses the Standard Formula to calculate the capital requirement for spread risk in accordance with rule 3D21 in the SCR-SF Part of the PRA Rulebook; and
- fails to comply with the due diligence requirements in either Article 5(1), (2), and (3) of Chapter 2 or in Chapter 3 of the Securitisation Part of the PRA Rulebook (as applicable to its securitisation positions) in any respect by reason of negligence or omission.

3.3 The increase to the SCR referred to in the previous paragraph will be calculated by basing the capital requirement for spread risk of the relevant securitisation positions on the risk factors referred to in SCR-SF 3D21, but where those risk factors are increased by no less than 250%.

3.4 The PRA will consider imposing progressive increases to the risk factors referred to in the previous paragraph on a firm in response to each subsequent breach of the requirements set out in either Article 5(1), (2) and (3) of Chapter 2 or in Chapter 3 of the Securitisation Part of the PRA Rulebook.

3.5 The PRA would exercise its powers under s55M of FSMA 2000 when imposing an increase to a firm's SCR as described in paragraphs 3.2 to 3.4.



## 4: Adjustment for the loss-absorbing capacity of deferred taxes (LACDT)

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4.1 This chapter sets out the PRA's approach to considering applications from firms and granting permissions for firms to utilise an increase in deferred tax assets in the calculation of the adjustment for LACDT. This chapter is relevant to all UK Solvency II firms, the Society of Lloyd's, and its members and managing agents, collectively referred to as 'firms'. It is most relevant to firms for which the calculation of LACDT is not within the scope of an internal model permission, and which are subject to UK corporation tax.

4.2 Solvency Capital Requirement – Standard Formula 6.4 provides that, in the calculation of the adjustment for LACDT, a firm must not utilise an increase in the amount of deferred tax assets that would result from an instantaneous loss of an amount equal to the sum of the following, collectively referred to herein as the 'Gross SCR Scenario':

- the Basic Solvency Capital Requirement (BSCR);
- the adjustment for the loss-absorbing capacity of technical provisions (LACTP); and
- the capital requirement for operational risk.

4.3 This prohibition applies to any calculation of LACDT in accordance with the standard formula.

4.4 The requirement for a firm to obtain permission to recognise an increase in deferred tax assets resulting from the Gross SCR Scenario of the adjustment for LACDT ("permission for LACDT") will not apply until 31 December 2025. This applies in cases where it is probable that future taxable profit will be available against which the increase can be utilised.

4.5 The PRA has put in place a transitional rule until 30 December 2025. The transitional rule delays the requirement for a firm to obtain a permission while preserving the calculation requirements. The transitional rule requires firms to:

- comply with the criteria, outlined in 4.12 and 4.13, when assessing the probability of available future taxable profits;
- notify the PRA if they intend to recognise an increase of deferred tax assets within their LACDT calculations; and
- ensure they have documentary evidence available on request explaining how they comply with the relevant conditions.



4.6 As described below, a firm may apply to the PRA for permission to modify the prohibition in rule 6.4(3) to allow recognition of an increase in deferred tax assets. When granting such permissions, the PRA would exercise its powers under S138BA of FSMA.

## Scope of the adjustment for LACDT

4.7 As explained in rule Solvency Capital Requirement – Standard Formula 6.4 and in SS 2/14 Solvency II: recognition of deferred tax,<sup>8</sup> the adjustment for LACDT reflects the tax effects when calculating the SCR.<sup>9</sup>

## Applications for permission to utilise an increase in deferred tax assets

4.8 A firm may apply to the PRA to modify rule 6.4(3) to permit the recognition of an increase in deferred tax assets which would result from the Gross SCR Scenario in its calculation of the adjustment for LACDT, where it is probable that future taxable profit will be available against which the increase can be utilised. Two types of application are available:

- a) A permission for LACDT granted via a Modification by Consent (MbC) is available to firms maintaining a ratio of eligible own funds to SCR (SCR Ratio) which is not less than 175%.<sup>10</sup> The MbC modifies rule 6.4(3) to permit a firm to recognise a limited increase in deferred tax assets within its calculation of LACDT adjustments of up to 5%, of the instantaneous loss described in rule 6.4(1) of the SF-SCR Part of the PRA Rulebook (ie the gross SCR scenario before any adjustments for LACDT).<sup>11</sup>
- b) Firms which do not maintain the required SCR Ratio, or which seek to recognise future taxable profits which are probable and which exceed the amounts permitted by the MbC may make an application which will be assessed by the PRA. This option is referred to as 'Full Application' in this chapter.

4.9 The MbC permits the recognition of an increase in deferred tax assets within a firm's calculation of LACDT, and recalculation of probable future taxable profits by a firm for the duration of the permission.

4.10 The MbC modifies the rule to permit a firm to recognise future taxable profits which are probable and where the projections of future taxable profits comply with the same criteria and assumptions which apply to a Full Application. Those criteria and assumptions are set out in

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<sup>8</sup> The PRA has updated SS2/14 only for changes to cross-references to assimilated law as a consequential amendment from PS15/24 and must be read in light of the policy set out in this SoP.

<sup>9</sup> Available at: [www.bankofengland.co.uk/prudential-regulation/publication/2014/solvency2-recognition-of-deferred-tax-ss](http://www.bankofengland.co.uk/prudential-regulation/publication/2014/solvency2-recognition-of-deferred-tax-ss).

<sup>10</sup> Ratio of eligible own funds to SCR as reported at R0620 C0010 of IR.23.01.01.

<sup>11</sup> As a consequence, the transitional rule will no longer be applicable.



full in the MbC written notice and broadly reflect those set out in paragraphs 4.12 and 4.13 below.<sup>12</sup> Furthermore, the modification provided by the MbC:

- does not permit the assumption of an investment return greater than the implicit returns of the forward rates derived from the relevant risk-free interest rate term structure obtained after the Gross SCR Scenario; and
- does not place a restriction on a firm's recognition of LACDT which is supported by sources other than utilisation of future taxable profits. For example, assuming that the gross SCR scenario results in a tax loss of the same amount, LACDT without an MbC could be 20% of the gross SCR scenario supported by loss carry-back and/or the reversal of deferred tax liabilities under the scenario. An MbC would allow the LACDT benefit to be increased to 25% if the additional 5% can be supported by probable future taxable profits.

4.11 As mentioned in paragraph 4.5, transitional rule 6.5 in the Solvency Capital Requirement – Standard Formula Part of the PRA Rulebook allows a firm to utilise an increase in DTA resulting from the Gross SCR Scenario within its LACDT calculations, provided the firm meets the relevant requirements. Where a firm makes use of the transitional rule, the SCR ratio it reports at R0620 C0010 of IR.23.01.01 during the transitional period will include LACDT benefits stemming from that utilisation, and therefore will count towards meeting the MbC criterion of minimum SCR ratio of 175%. After the transitional period expires, the SCR ratio reported by a firm will be based on the relevant rules (as modified by any applicable permissions) at the time of the calculation.

## Full Application – criteria relevant to granting a permission

4.12 The criteria and factors which the PRA expects to take into account when assessing a Full Application are set out below. In assessing the application, the PRA will consider granting a firm permission for LACDT where it demonstrates to the satisfaction of the PRA that it is probable that future taxable profit will be available against which that increase can be utilised, based on assumptions which meet the following criteria:

- (a) a firm must not assume new business sales in excess of those projected for the purposes of its 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) a firm must assume the rates of return on its investments following the Gross SCR Scenario referred to in paragraph 4.2 to be equal to the implicit returns of the forward rates derived from the relevant risk-free interest rate term structure obtained after that

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<sup>12</sup> The final version of the statement of policy will link to the MbC published on the PRA website.



loss, unless it can present credible evidence of likely returns in excess of those implicit returns;

- (d) where a firm sets a projection horizon for profits from new business that is longer than the horizon of its business planning, it must set a finite projection horizon and apply appropriate haircuts to the profits from new business projected beyond the horizon of its business plan. The firm must 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 the valuation and utilisation of deferred tax assets in accordance with Chapter 11 of the Valuation Part of the PRA Rulebook.

4.13 In addition to the criteria set out in paragraph 4.12, projections supporting the probability that future taxable profits will be available against which an increase in deferred tax assets can be utilised must take account of the following factors:

- (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 and nature of the Gross SCR Scenario 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 Gross SCR Scenario, as well as the increasing degree of uncertainty relating to future taxable profit following that loss, as the projection horizon increases in length.

4.14 To assist the PRA in reaching a decision on an application for permission for LACDT, firms are encouraged to:

- Include explanations as regards compliance with the criteria and factors set out in paragraphs 4.12 and 4.13 respectively.
- Demonstrate that the SCR, after utilising an increase in deferred tax assets, is consistent with the confidence level set out in Solvency Capital Requirement – General Provisions 3.4.
- Include any assessment by the risk management function or actuarial function of projected future taxable profits carried out in accordance with rule 3.1A(8) of the Conditions Governing Business Part of the PRA Rulebook.



- Demonstrate compliance with relevant EIOPA Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes. The PRA reminds firms of its expectations as regards firms' continued compliance with those guidelines.<sup>13</sup>
- Include additional supporting information that they consider relevant. For example, in order to support the PRA's assessment of the rule modification application, firms may wish to present a history of actual vs forecast profits.

4.15 A firm should ensure that it has documentary evidence demonstrating how it complies with the conditions and criteria in the permission, and it can provide that evidence if requested by the PRA. The PRA reserves the right to evaluate a firm's projections of future taxable profits at any time which may result in the revocation of the permission in whole or in part.

4.16 Evidence used to support a supervisory determination under CDR Article 207(2a), already held by a firm prior to 31 December 2024 may be used to support a full application for a s138BA permission for LACDT, provided it satisfies the relevant criteria in paragraphs 4.12 – 4.14, is up-to-date and otherwise remains relevant to the PRA's assessment.

4.17 If a firm wishes to make significant changes to its approach to calculate LACDT, it should notify the PRA.

## Assessment of the Full Application

4.18 The PRA will confirm receipt of the firm's application.

4.19 The PRA may request additional information necessary for carrying out its assessment. The PRA will specify any additional information required and the reasons for the request. When assessing an application, the PRA may request the firm to make adjustments to the way it proposes to calculate probable future taxable profits. Where the PRA determines that it is possible to grant a permission for = LACDT = subject to adjustments being made, it will notify the firm of those adjustments in writing.

4.20 A firm should inform the PRA of any change to the details of its application. Where this is the case, the PRA will treat it as a new application unless:

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<sup>13</sup> The PRA set its expectations regarding the Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes in line with the approach described in the Statement of Policy – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU, July 2025.

[www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-loss-absorbing-capacity-of-tp-deferred-taxes.pdf](https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-loss-absorbing-capacity-of-tp-deferred-taxes.pdf).

[www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop](https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop).



- (a) the change is due to a request from the PRA for additional information or adjustments; or
- (b) the PRA is satisfied that the change does not significantly affect its assessment of the application.

4.21 In assessing an application, and in particular a firm's compliance with the criteria set out in paragraphs 4.12 and 4.13, the PRA may take account of the following factors:

- the risk profile of the firm;
- the firm's governance over the projection of future taxable profit and the validation of the results; and
- the sensitivity of the firm's regulatory solvency position to the application.

4.22 If the PRA considers that it will only grant a permission in respect of some but not all projected future taxable profits, or otherwise limit the scope of the permission, it will notify the firm.

## Decision on the Full Application

4.23 When the PRA has reached a decision on the application, it will notify the firm in writing with its decision. The written notice will specify:

- a) where the PRA grants permission, the scope of the permission and the starting date from which the utilisation of an increase in deferred tax assets can be used in the firm's calculation of LACDT adjustment; and
- b) where the PRA does not grant a permission, the reasons on which the decision is based.

## The PRA's powers to vary or revoke permissions

4.24 The PRA's power to grant a permission for LACDT under s138BA of FSMA permits the PRA to vary or revoke permissions. The circumstances in which the PRA would consider exercising those powers include:

- a) Where a firm applies to the PRA to vary the permission. A firm should include within its application any information set out above in paragraphs 4.12 and 4.13 that is relevant to the variation request. The PRA will assess the application in line with paragraphs 4.18 to 4.22 above. The PRA will consider varying the permission pursuant to the firm's application, provided the criteria set out above in paragraphs 4.12 and 4.13 continue to be satisfied. In reaching a decision on the application, the PRA will follow the approach described above in paragraph 4.23.



- b) The PRA may revoke or vary a firm's permission for LACDT if it ceases to comply with the requirements specified within the written notice or at the request of the firm to revoke the modification.
- c) Furthermore, when the PRA grants a s138BA permission for LACDT, it is based on a firm's satisfactory demonstration that the criteria and factors set out above in paragraphs 4.12 and 4.13 are met, rather than granting permission to recognize a specific amount of LACDT benefit stemming from an increase in deferred tax assets. As mentioned in paragraph 4.17, if a firm wishes to make significant changes to its approach to calculating LACDT, it is expected to notify the PRA. Since the permission is granted based on a point in time assessment of the probability that future taxable profit will be available, the PRA may review a firm's permission in light of changes in accounting standards, economic conditions, or other factors that are relevant to the criteria and factors set out above in paragraphs 4.12 and 4.13 that could invalidate the assumptions underlying the projections. The PRA may also consider granting permission on a time limited basis (for example, 3 years).