PS15/24 – Review of Solvency II: Restatement of assimilated law

1: Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses the PRA received to consultation paper (CP) 5/24 – **Review of Solvency II: Restatement of assimilated law**. This PS is the PRA's final policy statement to implement the conclusions of the **Solvency II Review** as originally set out in CP12/23 – **Review of Solvency II: Adapting to the UK insurance market**

1.2 CP5/24 set out the PRA's proposals to finalise PRA rules, policy material (supervisory statements (SS) and statements of policy (SoP)), reporting and disclosure templates and instructions and Insurance Special Purpose Vehicle (ISPV) templates and instructions that will replace Solvency II assimilated law[1] which is being revoked by His Majesty's Government (HMG) on 31 December 2024 in line with the approach of regulation under the Financial Services and Markets Act 2023 (FSMA 2023).[2] This PS concludes an important step in the adaptation of the UK's prudential regime for insurers inherited from the European Union (EU) into a framework consistent with the UK's approach to financial services regulation.

1.3 This PS also confirms the PRA's final rules and policy material for those areas where near-final rules were provided in PS2/24 – **Review of Solvency II: Adapting to the UK insurance market**, PS3/24 – **Review of Solvency II: Reporting and disclosure phase 2 near-final,** and the reporting rules set out in PS10/24 – **Review of Solvency II: Reform of the Matching Adjustment**.[3] These will also take effect on 31 December 2024.

1.4 Furthermore, this PS also updates references to Solvency II assimilated law and EU Directives in PRA rules and policy material. These updates are to ensure that, as far as possible, cross-references to requirements all refer to the final rules published in this PS and not to their assimilated law equivalents, and to update references to EU Directives in policy material to the relevant parts of the UK's regulatory framework where appropriate. This is consistent with the approach described in paragraph 1.16 in Chapter 1 of CP5/24.

1.5 As an aid for stakeholders, this PS also includes a full set of mapping tables, set out in Appendix 8, outlining where all relevant Solvency II assimilated law and other materials have been restated into PRA rules and policy material. This expands on the original mapping

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1 Retained EU law that continues to apply in the UK was renamed to 'assimilated law' by section 5 of the **Retained EU Law (Revocation and Reform) Act 2023**

2 **The Financial Services and Markets Act 2023 (Commencement No. 6) Regulations 2024**

3 The majority of the MA rules and policy came into force on 30 June 2024. Only the associated reporting requirements and templates are covered in this PS, as they were only published in near-final form in PS10/24.

tables published in CP5/24 and now includes assimilated law and other materials that were covered in PS2/24, PS3/24 and PS10/24.[4]

1.6 Therefore, in aggregate, this PS contains the PRA's final Solvency II rules, supervisory statements and statements of policy, reporting and disclosure templates and instructions, Insurance Special Purpose Vehicle templates and instructions, Standard Formula (SF) annexes and s138BA permission application forms that will be effective on 31 December 2024. Across this PS, PS2/24, PS3/24 and PS10/24, the PRA has considered all[5] elements of the onshored **Commission Delegated Regulation (EU) 2015/35 (CDR)**, **the Solvency 2 Regulations 2015**, and related Technical Standards (TSs). Please see Appendix 1 for the full list of the materials that have been introduced, amended, or deleted as part of the final policy in this PS.

1.7 This PS is relevant to UK Solvency II firms, the Society of Lloyd's, its members and managing agents, insurance and reinsurance groups, insurance and reinsurance undertakings that have a UK branch (third-country branch undertakings), and UK holding companies. This PS will refer to these collectively as 'insurers' or 'firms' unless otherwise specified. The PS will also be of interest to non-Directive firms (ie firms outside the scope of Solvency II) and anyone intending to provide insurance services operating in, or providing services into, the UK, as this PS finalises the PRA's policies on the thresholds for Solvency II to apply and a new mobilisation regime for prospective insurers intending to enter the UK insurance sector previously published in PS2/24.

Background and developments since CP5/24

1.8 Chapter 1 of CP5/24 set out the background to the Solvency II Review, the key benefits envisaged by the restatement of assimilated law and the scope of the restatement of assimilated law.

1.9 As explained in paragraph 1.20 in Chapter 1 of CP5/24, the new UK prudential regime for insurers will eventually be known as 'Solvency UK'. However, for clarity and consistency of the PRA's policy material, the PRA will continue to refer to the UK regime as Solvency II, until such time as all references to Solvency II can be changed across all relevant materials. Therefore, this PS will continue to refer to Solvency II, when discussing the new UK regime.

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4 For the avoidance of doubt, the mapping tables are no substitute for firm's own mapping and understanding of the new PRA Rulebook and policy material structure. Stakeholders should continue to familiarise themselves with the new contents of the PRA Rulebook and policy material going forward.

5 The revocation of Commission Implementing Regulation 2016/1800 has been considered separately and the PRA proposes to restate it into the PRA Rulebook as a part of CP13/24 – **Remainder of CRR: Restatement of assimilated law**.

PRA publications since CP5/24

1.10 The PRA published PS10/24 – **Review of Solvency II: Reform of the Matching Adjustment** on 6 June 2024. PS10/24 set out the PRA's final policy and rules (as well as near-final rules amending the Reporting Part of the PRA Rulebook) to deliver significant reforms to the Matching Adjustment (MA). These policies are intended to enable broader and quicker investment by insurers in their MA portfolios, while improving responsiveness to risk and enhancing firms' responsibility for risk management, within the framework of the **legislation** on the MA. Unless otherwise stated in PS10/24, these rules all came into force on 30 June 2024.

1.11 Furthermore, the PRA published PS12/24 – **The Prudential Regulation Authority's approach to rule permissions and waivers** on 25 July 2024. PS12/24 described the PRA's approach to publishing subject-specific SoPs and the usage of the PRA's statutory criteria, to outline how permissions are to be granted under section 138BA (s138BA) of the Financial Services and Markets Act (FSMA) 2000. Section 138BA of FSMA 2000 grants the PRA flexibility to disapply or modify the application of any of its rules, by giving firms appropriate permission where appropriate. The contents of this PS have been prepared in accordance with PS12/24.

1.12 The PRA also published **Review of Solvency II – PRA statement on existing Solvency II rule waivers and modifications** (the 'waivers statement') on 25 September 2024 to support firms' preparations for the final Solvency II rules coming into effect. The purpose of this statement was to provide an update to firms that hold existing PRA directions in respect of waivers or modifications of PRA rules. As set out in the statement, the PRA will contact affected firms following the publication of this PS to provide further instructions and request consent to vary the wording of their existing directions (where necessary) so that they will remain valid from 31 December 2024.

1.13 The PRA published **Review of Solvency II – PRA statement on proposed permission requirement for the calculation of loss-absorbing capacity of deferred taxes under the standard formula** ('LACDT statement') on 23 October 2024 to support firms' preparations for the final Solvency II rules coming into effect. The purpose of this statement was to indicate that the PRA was considering a temporary delay in its final policy to introduce a s138BA permission requirement in respect of the loss absorbing capacity of deferred taxes (LACDT). The PRA's final policy is now given in this PS.

Legislative Developments

1.14 The following HM Treasury (HMT) legislation is relevant to and should be read in conjunction with this PS. The legislation described below is consistent with the expectations relating to the legal framework described in Chapter 1 of CP5/24.

1.15 **The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023** ('IRPR regulations 2023'), were made on 7 December 2023 and came into force on 30 June 2024 in respect of the Solvency II matching adjustment.[6] This legislation also sets out the PRA's duty to publish technical information, which is used by insurance firms to calculate their technical provisions and the solvency capital requirement (SCR) on the basis of the Standard Formula (SF).

1.16 **The Financial Services and Markets Act 2000 (Disapplication or Modification of Financial Regulator Rules in Individual Cases) Regulations 2024**, was made on 18 April 2024, and came into force on 30 June 2024. This legislation includes regulations in exercise of the powers conferred by section s138BA of FSMA 2000. s138BA allows the PRA to grant firms permissions to not apply rules, or to apply them in a modified way (rule permission).[7]

1.17 **The Financial Services and Markets Act 2023 (Commencement No. 6) Regulations 2024**, were made on 9 May 2024, and will come into force on 31 December 2024. These regulations set out the revocation of assimilated law, so that it can be replaced by relevant PRA rules and policy material, in line with the approach of regulation under FSMA 2000. In particular, this legislation revokes:

- the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/13/8/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance reinsurance (Solvency II). (**Regulation (EU) 2015/35**);
- the Solvency 2 Regulations 2015 (**S.I. 2015/575**);
- the Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (**S.I. 2019/407**);
- the Solvency II Commission Implementing Regulations (as listed in the Schedule of the above legislation); and
- the Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023.

1.18 The PRA notes that the above revocations may impact the regulation of activities (such as the treatment of exposures) in connection with Gibraltar, due to the operation of Regulation 11 of **The Gibraltar (Miscellaneous Amendments) (EU Exit) Regulations 2019**.

1.19 HMG's legislation, **The Insurance and Reinsurance Undertakings (Prudential Requirements) (Amendment and Miscellaneous Provisions) Regulations 2024**, was

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6 In respect of regulation 7 (Power of PRA to make rules), this regulation came into force on 1 April 2024.
7 This legislation is consistent with the position described by the PRA in Chapter 1 of CP5/24.

made on 31 October 2024 and will come into force on 31 December 2024.[8] This legislation restates the risk margin calculation formula and parameters in the statute book. Furthermore, this legislation contains amendments to FSMA 2000 consistent with the implementation of the mobilisation, threshold conditions and third-country branch reforms set out in PS2/24.

1.20 HMG's legislation, **The Insurance and Reinsurance Undertakings (Overseas Insurance Regime, Transitional Provisions, etc.) Regulations 2024**, was made on 6 November 2024 and will come into force on 31 December 2024. This legislation amends **The Insurance and Reinsurance Undertakings (Prudential Requirements) (Transitional Provisions and Consequential Amendments) Regulations 2024**[9] to provide that all approvals[10] granted under Part 4 of the Solvency 2 Regulations 2015 prior to 31 December 2024 will become a permission granted by the PRA under s138BA, ensuring that firms with existing Part 4 approvals can continue to apply their permission after 31 December 2024.[11] Therefore, the PRA has no plans to require firms to reapply for permissions in relation to Part 4 approvals granted prior to 31 December 2024. This legislation also introduces the new overseas insurance regime by amending **The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023**. The PRA has made consequential updates to the rules and the policy material. Amendments to PRA rules include the Solvency Capital Requirement – Standard Formula Part (as detailed in Chapter 6), the Group Supervision Part and associated policy documents (as detailed in Chapter 12), and the Own Funds and Eligible Liabilities Part (in the Capital Requirement Regulation part of the PRA Rulebook) to refer to the regime.

Summary of proposals and scope of CP5/24

1.21 In CP5/24 the PRA proposed to restate assimilated law into the PRA Rulebook and other PRA policy material, without material changes to the policy substance unless explicitly mentioned. The intention of these proposals was to maintain both the requirements on firms as well as the PRA's approach.

1.22 In CP5/24 the two most significant proposals which went beyond restatement were:

- a new time-limited transitional rule in the Own Funds Part of the PRA Rulebook allowing firms to continue to treat legacy paid-in preference shares issued prior to 18

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8 In respect of regulation 7C (power of PRA to make rules) and regulation 11 (amendments to the Companies Act 2006), these regulations came into force the day after this legislation was made (ie 1 November 2024).

9 **The Insurance and Reinsurance Undertakings (Prudential Requirements) (Transitional Provisions and Consequential Amendments) Regulations 2024** which was made on 1 May 2024, originally just covered the MA permission conversion.

10 Excluding MA, which was saved by **The Insurance and Reinsurance Undertakings (Prudential Requirements) (Transitional Provisions and Consequential Amendments) Regulations 2024**

11 **Draft Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations**

January 2015 as not relevant when assessing the compliance of their ordinary shares with certain unrestricted Tier 1 own funds requirements, for a period of 25 years; and

- restating amounts denominated in EUR into the UK framework, into GBP using the same conversion rate used in PS2/24 for a similar purpose.

Updates to references to assimilated law and the EU framework

1.23 The primary aim of CP5/24 was to reflect the UK Government's overall plans to revoke Solvency II assimilated law and to update cross references to assimilated law or EU law (eg the CDR) which exist within PRA policy material. The changes being made include updating (or if appropriate deleting) existing cross references across the PRA Rulebook, policy material and other areas to reflect the expected revocation of Solvency II assimilated law. References to versions of EU law (in force or otherwise) have been maintained where they remain relevant.

1.24 Furthermore, as stated in paragraph 1.16 in Chapter 1 of CP5/24, where there are inconsistencies in references to assimilated law (such as inconsistent or incorrect cross-references, or missing definitions), these were corrected as a part of this PS, without changes to the PRA policy expectations.

1.25 The PRA has not restated references to the credit quality step mapping tables in Binding Technical Standard (BTS) 2016/1800 in this PS.[12] The PRA has proposed the restatement of this BTS in CP13/24 – **Restatement of CRR: Restatement of assimilated law.**

1.26 References related to the UK's membership of the EU in the rules and other policy material covered by the policy in this PS have been updated as part of this PS to reflect the UK's withdrawal from the EU. Unless otherwise stated, any remaining references to EU or assimilated legislation refer to the version of that legislation which forms part of assimilated law.[13]

Approach to European Insurance and Occupational Pensions Authority (EIOPA) Guidelines

1.27 As described in paragraph 1.21 – 1.23 in Chapter 1 of CP5/24, the PRA generally expects firms to continue to consider Guidelines issued by the European Insurance and Occupational Pensions Authority (EIOPA), as relevant. This is consistent with the approach to EU Guidelines set out in the **Statement of Policy on the Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU**.

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[12] Binding technical standard (BTS) 2016/1800 with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps.

[13] For further information please see **Transitioning to post-exit rules and standards**.

Summary of responses

1.28 The PRA received 16 responses to the CP and the names of respondents who consented to their names being published is set out in Appendix 2.

1.29 The PRA would like to thank those who responded to CP5/24, and who provided detailed responses covering a wide range of SII topics. The PRA has provided responses to these representations in this PS, and many of these have led to improvements in the overall quality and clarity of the PRA's final rules and policy. However, it is important to note that overall the final policy in this PS is largely unchanged from what was consulted on in CP5/24 given the primary aim to restate SII assimilated law into the PRA Rulebook and policy material, without material amendments to the policy substance.

1.30 Respondents were largely supportive of the PRA's proposals in CP5/24. A number of respondents made the following general comments in support of the proposed package:

- Respondents were pleased that the approach to CP5/24 was to restate existing requirements into the PRA Rulebook and policy material with no changes to policy intention, except in sign-posted areas. This approach meant there were very few additional costs or burdens placed on firms.
- Where any minor policy changes were proposed (such as to address inconsistencies and rectify cross-referencing issues), respondents felt these seemed sensible and non-contentious.
- The stated intent of maintaining current requirements for firms was welcomed by respondents, especially in the context of the reforms undertaken and covered under PS2/24, PS3/24 and PS10/24.
- Respondents noted the proposals bought greater clarity and cohesion to the requirements placed on firms.
- Respondents commended the accompanying materials published by the PRA, in particular the mapping tables, which were viewed as helpful and supportive of firms' understanding of the proposals in CP5/24.
- Respondents noted that CP5/24 allowed for future reforms to take place, should the PRA wish to do so. Some suggestions for future reforms were also highlighted.
- Respondents were appreciative of the PRA's consultation engagement, in particular the PRA's industry roundtable held on 8 July 2024.

1.31 The PRA received the most amount of feedback on the following proposals:

- **Standard Formula Proposal 1**: Respondents sought some clarifications and requested certain corrections in respect of the proposed restated assimilated law related to the SF.

- **Standard Formula Proposal 2**: Respondents requested further guidance on the PRA's proposal for a notification requirement to replace the requirement to demonstrate compliance to the PRA in respect of the CDR articles covered in Table 8F in CP5/24. Respondents also raised questions about and challenged the PRA's proposals to restate CDR Article 207 in respect of the calculation of the loss-absorbing capacity of deferred taxes (LACDT), and permit modification of that rule under s138BA of FSMA 2000.
- **Standard Formula Proposal 4**: Respondents raised questions about and challenged PRA's proposed definition of 'ring-fenced fund' (RFF).

1.32 For ease of reading, these have been assigned individual chapters in this PS, as per paragraph 1.45 below.

1.33 Respondents raised some general points, questions and clarifications in relation to CP5/24 as a whole. Those general points, as well as those relating to Chapter 1 (Overview) of CP5/24, are addressed in Chapter 13 of this PS. Otherwise, the responses relevant to specific proposals in the CP are addressed in the relevant chapters of this PS.

1.34 The PRA also received a number of comments from respondents that did not relate directly to the proposals in the CP or otherwise fell outside of the scope of the CP. The PRA is not addressing these points in this PS, unless specifically stated otherwise in the individual chapters of this PS, but may consider them as part of future policy development.

Changes to draft policy

1.35 Where the final rules differ from the draft in the CP in a way which is significant, FSMA[14] 2000 requires the PRA to publish:

- details of the differences together with an updated cost benefit analysis (CBA); and
- a statement setting out in the PRA's opinion on whether or not the impact of the final rules on mutuals is significantly different from: the impact that the draft rule would have had on mutuals; or the impact that the final rule will have on other PRA-authorised firms.

1.36 The PRA is grateful for the responses received to CP5/24 and has carefully considered the feedback and representations made by respondents. Having done so, the PRA has identified a number of areas where it is appropriate to make minor adjustments to the draft policy such that the restatement of assimilated law remains in-line with the original policy intention.

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[14] Sections 138J(5) and 138K(4) of FSMA.

1.37 Additionally, the PRA has made two relatively more substantial changes to the policy proposals from CP5/24:

- in respect of the loss absorbing capacity of deferred taxes under the SF, the introduction of a transitional rule delaying the requirement to obtain permission from the PRA to recognise future taxable profits (FTP) in the LACDT calculation until 30 December 2025. Firms must comply with the criteria set out in the transitional rule when assessing if FTP are probable and in order to recognise the benefit of this in their LACDT calculation until 30 December 2025; and
- amendments to the proposed 'ring-fenced fund' (RFF) definition to preserve the PRA's current policy approach to RFFs. The amendments to the proposed definition preserve the link to 'restricted own funds' and explicitly exclude matching adjustment portfolios (MAPs) from the definition.

1.38 Further details on issues raised in responses, and any related amendments to the policy, are set out in the relevant chapters of this PS. The PRA considers the changes made to the policy are appropriate and improve the final rules and final policy material, in a manner that aligns with the PRA's statutory objectives.

1.39 The PRA considers the costs and benefits of the final rules and final policy in this PS do not significantly differ overall from those derived from the draft policy proposed in CP5/24. The aggregated CBA presented in Chapter 1 (Overview) of CP5/24 and the individual chapters of that CP remains appropriate, unless specifically stated otherwise in the chapters of this PS.

1.40 The PRA does not consider that the impact of the final policy and final rules in this PS would have a significantly different impact on mutuals relative to the impact of the draft policy and rules on mutuals[15] or on other PRA-authorised firms.

1.41 Where the PRA has made minor typographical or drafting amendments to the materials proposed in CP5/24 that do not alter the policy intention, these will not generally be commented on.

Accountability Framework

1.42 Before making any proposed rules, the PRA is required by FSMA 2000 to comply with several legal obligations, including to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[16] In this PS, the 'Summary of responses' section above contains a general account of the

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15 In paragraph 1.56 in Chapter 1 (Overview) of CP5/24, the PRA explained that it expected the impact of the proposed restatement on mutuals to be no different from the impact on other firms.

16 Sections 138J (3) and 138J(4) of FSMA.

representations made in response to CP5/24 and the ‘Feedback to responses’ section within each chapter contains the detailed responses and the PRA’s feedback for each policy area.

1.43 When making rules, the PRA is also required to consider responses to consultation and publish an explanation of the PRA’s reasons for considering that making the proposed rules is compatible with its objectives and with its duty to have regard to the regulatory principles.[17] In CP5/24, the PRA set out details of the applicable accountability framework in Chapter 1 (Overview). Where required, the PRA also provided an assessment of relevant considerations for the proposed reforms against its objectives separately in each chapter. Where the PRA has made changes to the draft policy proposed in CP5/24, it considers that generally this analysis provided against the PRA’s primary and secondary objectives continues to apply, unless otherwise explained in the relevant chapters of this PS.

1.44 The PRA considers that the final rules and final policy have taken into account the wide range of points raised by respondents. In most cases, the PRA considers that the responses to the consultation, and associated changes to the final rules and final policy, did not significantly alter the PRA objectives analysis, ‘have regards’ analysis, or cost benefit analysis provided as part of CP5/24. Where the PRA considers that its analysis has changed, it provides further explanation in the relevant chapters of this PS.

Structure of the PS

1.45 The PRA’s feedback to responses received to the proposed reforms in CP5/24 and an explanation of the final policy and final rules are structured into the following chapters.

- Chapter 2: General Provisions
- Chapter 3: Technical Provisions: Risk Margin
- Chapter 4: Technical Provisions: Further requirements
- Chapter 5: Own funds
- Chapter 6: Standard Formula Proposal 1: Restatement of assimilated law for the areas covered
- Chapter 7: Standard Formula Proposal 2: Notifications and further use of section 138BA permissions
- Chapter 8: Standard Formula Proposal 4: Definition of the term ‘Ring-Fenced-Fund’
- Chapter 9: Systems of governance
- Chapter 10: Public Disclosure
- Chapter 11: Insurance Special Purpose Vehicles
- Chapter 12: Insurance Groups

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[17] Section 138J(2)(d) of FSMA.

- Chapter 13: Other proposals in CP5/24
- Chapter 14: General points raised by respondents
- Chapter 15: Other minor amendments to PRA rules, reporting templates and instructions and policy material

1.46 The PRA received no responses to a number of chapters in CP5/24. The finalisation of the rules and policy covered by those chapters and proposals from CP5/24 is discussed further in Chapter 13 of this PS. Chapter 14 addresses responses which were general in nature.

1.47 Furthermore, this PS contains a number of appendices which contain the PRA's final policy, as described in paragraphs 1.1 to 1.6:

- Appendix 1 contains the final changes to PRA rules and policy material, including new, amended and deleted sections of the PRA Rulebook, SSs, SoPs and templates.
- Appendix 2 contains a list of respondents to CP5/24 who have consented to the publication of their names.
- Appendix 3 contains a number of abbreviations which have been defined in full upon first usage in this PS.
- Appendix 4 contains the Final PRA Rulebook: Solvency II Reform Instrument 2024, the PRA's final rules in respect of PS2/24, as described in paragraph 1.3.
- Appendix 5 contains the Final PRA Rulebook: Solvency II Reporting Reform Instrument 2024, the PRA's final rule instruments in respect of PS3/24 and PS10/24, as described in paragraph 1.3.
- Appendix 6 contains the Final PRA Rulebook: Solvency II Instrument 2024, which includes the PRA's final rules following CP5/24, along with updated references to assimilated law and the Solvency II Directive as described in paragraph 1.4.
- Appendix 7 contains the final Standard Formula Annexes, as stated in paragraph 8.14 in CP5/24.
- Appendix 8 contains the PRA's mapping tables outlining where all relevant Solvency II requirements set out in assimilated law and other areas have been restated (or otherwise) in the PRA Rulebook and policy material, as described in paragraph 1.5 of this PS.
- Appendices 9 to 29 contain other final policy material, reporting templates and instructions and Insurance Special Purpose Vehicle (ISPV) templates and instructions. These are discussed further in the individual chapters of this PS.

Implementation

1.48 The implementation date for final rules and policy material reflecting policy changes set out in this PS is 31 December 2024, as set out in paragraph 1.60 of CP5/24. This includes the final rules and policies from PS2/24, PS3/24 and the reporting rules in PS10/24.

1.49 The rule in respect of the 25-year transitional to allow firms to continue to treat legacy paid-in preference shares issued prior to 18 January 2015 as not relevant when assessing the compliance of their ordinary shares with certain unrestricted Tier 1 own funds requirements, will come into force on 2 January 2026.

1.50 As detailed further in Chapter 7, the PRA has introduced a transitional rule allowing firms to utilise an increase in deferred tax assets (DTA) based recognition of future taxable profits in their LACDT calculations. This transitional period permits firms to delay obtaining s138BA permission for LACDT until 30 December 2025. During this time, firms can recognise an increase in DTA in their LACDT calculations if they meet the criteria in rule 6.5 of the Solvency Capital Requirement – Standard Formula (SCR-SF) Part of the PRA Rulebook. Firms must notify the PRA of their use of this rule and are required to maintain documentation to demonstrate compliance. After 30 December 2025, firms must obtain s138BA permission to continue utilizing this approach.

1.51 The PRA Rulebook: Solvency II Reporting Reform Instrument and additional reporting policy material from PS3/24 and the Public Disclosure chapter in this PS come into effect on 31 December 2024. These will be effective for quarterly and annual reporting reference dates falling on and after 31 December 2024.

1.52 The PRA has also published modifications by consent (MbC) supporting the Statement of Policy – Solvency II regulatory reporting waivers (Appendix 14).[18] Eligible firms seeking to report in accordance with this SoP will need to follow the instructions set out on the **waivers and modifications of rules** webpage to accept these modifications by consent. The PRA has communicated separately with firms that hold existing waivers, or modifications by consent, affected by the changes set out in this SoP (see **'waivers statement'**).

1.53 The PRA has also published updated application material for Solvency II permission applications that will be made under s138BA from 31 December 2024. These updates can be found on the PRA's **Authorisations** webpage. Further details on s138BA applications can be found in individual chapters of this PS. Any firm wishing to make an application under the existing approvals regime should discuss this with their supervisor. In addition, two existing modifications by consent for third country-branch undertakings have been republished to reflect the final package of SII rules, and firms will be contacted to vary their existing directions. Where firms seek to apply for a new waiver or modification by consent, information on how to do this is available on the **waivers and modifications of rules** webpage.

1.54 Furthermore, the PRA has provided final UK Insurance Special Purpose Vehicle application forms, that were included in CP5/24. These updates can be found on the PRA's

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[18] Which will apply from 31 December 2024.

ISPV Authorisations webpage. The PRA also refers readers to CP15/24 – **Proposed changes to the UK Insurance Special Purpose Vehicle (UK ISPV) regulatory framework**.

2: General Provisions

Introduction

2.1 This chapter provides feedback to responses relating to the proposals in Chapter 2 (General Provisions) of CP5/24. It also confirms the PRA's final policy as follows:

- amendments to the Glossary, Solvency Capital Requirements – Standard Formula ('SCR-SF'), Matching Adjustment and Conditions Governing Business Part of the PRA Rulebook (Appendix 6); and
- additions to the PRA's existing SoP – The PRA's approach to the publication of Solvency II technical information (Appendix 9).

2.2 In Chapter 2 of CP5/24, the PRA proposed to restate in the PRA Rulebook, with no substantive changes, CDR articles covering the use of external credit assessments in the calculation of the SCR in accordance with the SF, and, where applicable, the calculation of the best estimate of a relevant portfolio of insurance obligations. In addition, the chapter set out the PRA's proposals for the provision of certain technical information relating to the calculation of the SCR and the technical provisions.

Changes to draft policy

2.3 As a result of amendments made through the rule instrument accompanying policy statement PS10/24 subsequent to CP5/24, the PRA made minor changes to the rules referred to in Chapter 2 of CP5/24. These changes came into force on 30 June 2024 and are already reflected in the PRA Rulebook. These are as follows:

- introducing definitions for the terms 'credit quality step' and 'credit rating' in the Glossary Part of the PRA Rulebook, which include credit quality steps 0 to 6 and reference to the mapping table in the Annex to **Commission Implementing Regulation 2016/1800** (CIR 2016/1800) in the definition of 'credit quality step'; and
- including the correct title of the legislation, namely **Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023** (2023/1347) ('IRPR regulations 2023') rather than 'MA regulations' in the definition of 'credit rating'.

2.4 For the avoidance of doubt, the PRA has not included the substance of CDR Articles 3(1) and 3(3) in its final policy. These Articles provided for the PRA to make technical standards on the allocation of credit assessments, consistent with their use in the calculation of the capital requirements for credit and financial institutions. The PRA's proposals on the publication of revised credit quality mapping tables, which will be transferred from CIR

2016/1800 into the PRA Rulebook, are set out in Chapter 7 of **CP13/24 – Remainder of CRR: Restatement of assimilated law**.

Feedback to responses

2.5 The PRA received one response to Chapter 2 of CP5/24. Details of the response and the PRA's feedback are described below.

Combined insurance and banking consultation for external credit assessment institution mapping tables

2.6 In CP5/24 the PRA stated its intention to publish a consultation paper later in 2024 proposing changes to the Capital Requirements Regulation (CRR) for banks, buildings societies and investment firms, which will include the policy relating to the allocation of credit assessments to an objective scale of credit quality steps for banks and insurers. This consultation has now been published, and the PRA recommends interested stakeholders review the proposals in Chapter 7 of CP13/24.

2.7 One respondent asked the PRA to clarify what its intentions are in respect of the credit quality step mappings for insurers.

2.8 The PRA clarifies that there is no intention to alter the methodology used to allocate external credit assessments into credit quality steps. Both the allocation methodology, which is detailed in **Commission Implementing Regulation 2016/1799**, and the resulting mapping tables in the Annex to **Commission Implementing Regulation 2016/1800** remain unchanged as a result of this publication.

2.9 The PRA also clarifies that the motivation for CP13/24 covering the credit quality step mapping tables for both banking and insurance is because the methodology underpinning the allocation of credit assessment to credit quality steps is shared by both the CRR and Solvency II frameworks. There is currently no intention to harmonise the mapping tables in the Solvency II framework with those in the CRR framework.

3: Technical Provisions: Risk Margin

Introduction

3.1 This chapter provides feedback to responses relating to the proposals in Chapter 5 (Technical Provisions: Risk Margin) of CP5/24. It also confirms the PRA's final policy, as follows:

- amendments to the Technical Provisions Part of the PRA Rulebook (Appendix 6); and
- amendments to the Glossary Part of the PRA Rulebook (Appendix 6).

3.2 In Chapter 5 of CP5/24, the PRA proposed to restate into the Technical Provisions Part of the PRA Rulebook:

- the UK Government's anticipated Solvency II legislation containing the risk margin formula and parameters;
- other parts of the CDR relating to the risk margin; and
- Guideline 2 of the EU Guidelines on the implementation of the long-term guarantee measures.

3.3 As described in paragraph 1.19 in Chapter 1 (Overview) of this PS, the UK Government has laid its final statutory instrument, **The Insurance and Reinsurance Undertakings (Prudential Requirements) (Amendment and Miscellaneous Provisions) Regulations 2024**, containing the risk margin formula and parameters and acknowledging the PRA's power to make rules permitting a firm to use simplified methods to calculate the risk margin. This final legislation is consistent with that described in paragraphs 5.4 to 5.7 of CP5/24. The PRA has updated its rules to reflect the final text, with no substantive changes being made.

Feedback to responses

3.4 The PRA received one response to Chapter 5 of CP5/24. Details of this response and the PRA's feedback is described below.

References leading to duplication

3.5 While the PRA did not propose any changes to Technical Provisions 4 (Risk Margin) of the PRA Rulebook in CP5/24, the respondent stated that Technical Provisions 4 could be deleted because it was duplicative of the CDR articles (containing the risk margin formula and parameters) proposed for restatement within the PRA Rulebook.

3.6 The PRA has decided not to change the proposed drafting of the rules in this area. The PRA considers there to be no duplication in this instance since Technical Provisions 4 sets

out the overarching risk margin requirement, and the requirements proposed for restatement within Technical Provisions 4A (Calculation of the risk margin) and 4B (Reference undertaking) of the PRA Rulebook set out the rules relevant to the calculation of the risk margin.

Glossary definition update

3.7 The PRA proposed to update the definition of the term risk margin in the PRA Rulebook Glossary to include reference to Technical Provisions 4A and 4B of the PRA Rulebook. Technical Provisions 4A and 4B contain the rules relevant to the calculation of the risk margin that had previously been in the CDR. The result was that the proposed definition referenced Technical Provisions 4, 4A and 4B.

3.8 The respondent commented that the PRA should consider updating the definition of the risk margin in the PRA Rulebook Glossary to reference only the rules that prescribe the specific method of calculation (eg Technical Provisions 4A and 4B), and not reference Technical Provisions 4.

3.9 After considering this response, the PRA has decided not to change the proposed definition of the risk margin in the PRA Rulebook Glossary. The PRA considers Technical Provisions 4 to be fundamental to the definition of the risk margin, which should be considered together with Technical Provisions 4A and 4B.

4: Technical Provisions: Further requirements

Introduction

4.1 This chapter provides feedback to responses relating to the proposals in Chapter 6 (Technical Provisions: Further requirements) of CP5/24. It also confirms the PRA's final policy, as follows:

- a new Part in the PRA Rulebook: Technical Provisions – Further Requirements (Appendix 6);
- a new Annex to the above new Part in the PRA Rulebook: Technical Provisions – Further Requirements (Appendix 6);
- a new SS8/24 – Solvency II: Calculation of Technical Provisions (Appendix 10); and
- amendments to the Glossary Part of the PRA Rulebook (Appendix 6).

4.2 In Chapter 6 of CP5/24, the PRA proposed to restate certain regulations relating to technical provisions except those related to discount rates and the risk margin from the CDR into PRA rules and policy material.

Feedback to responses

4.3 The PRA received one response to Chapter 6 of CP5/24. Details of this response and the PRA's feedback is described below.

PRA Rulebook Part name change

4.4 In CP5/24, the PRA proposed to create a new Part in the PRA Rulebook called Technical Provisions – Further Requirements which would contain all the additional requirements from the CDR relating to technical provisions not previously captured in the PRA Rulebook.

4.5 The respondent commented that the PRA should consider adding this to the existing Technical Provisions Part of the PRA Rulebook. Alternatively, the PRA should consider renaming it to be 'Technical Provisions – Determination' since it deals with the determination of technical provisions.

4.6 The PRA has decided not to change the proposed structure of the Rulebook in this area. The PRA considers that, given the volume of requirements being restated in this area, in this case it is more transparent to restate them in their own Part of the Rulebook rather than integrating them throughout the existing Technical Provisions Part. As the requirements cross-reference other requirements already in the Technical Provisions Part of the Rulebook, it was likewise considered preferable to keep them in a separate Part, rather than adding them onto the end of the Technical Provisions Part. Altering the name of that Part of the PRA

Rulebook from ‘Further Requirements’ to ‘Determination’ was not considered to be an improvement to the understandability of what this section contained, given the varied nature of the requirements restated.

5: Own funds

Introduction

5.1 This chapter provides feedback to responses relating to the proposals in Chapter 7 (Own funds) of CP5/24. It also confirms the PRA's final policy, as follows:

- amendments to the Glossary and Own Funds Part of the PRA Rulebook (Appendix 6);
- a new SoP – Solvency II: The PRA's approach to insurance own funds permissions (Appendix 11) (Own Funds SoP); and
- amendments to SS 2/15 – Solvency II: own funds (Appendix 12).

5.2 In Chapter 7 of CP5/24, the PRA consulted on the following proposals:

- proposal 1: restate the majority of own funds requirements from the CDR[19] to the Own Funds Part of the PRA Rulebook;
- proposal 2: set out an approach to granting own funds permissions, materially unchanged from its current approach. The PRA proposed to do this by restating relevant material from several sources, including assimilated law and EIOPA guidelines, and consolidating them in a new SoP;
- proposal 3: amend a number of CDR provisions when restating them into the PRA Rulebook to remove any uncertainty and ensure they align with current practice; and
- proposal 4: introduce a new own funds transitional rule.

Changes to draft policy

5.3 In Chapter 8 (Standard Formula Proposal 4: Definition of the term Ring-Fenced-Fund (RFF)) of this PS, the PRA outlines revisions to the definition of RFFs. As a consequential amendment the PRA has revised the definition of restricted own funds (ROF) proposed in CP5/24, to remove a circularity between that definition and the revised RFF definition. Namely, the PRA has removed from the definition of ROF the reference to own funds items being within a ring-fenced fund or a matching adjustment portfolio. In addition, the PRA has incorporated into the ROF definition the content of CDR Article 80(2), which the PRA proposed to restate as Own Funds 3L.2 in CP5/24. As a result, all relevant parts of CDR Article 80 are now included in the definition of ROF and the PRA has not restated that article in the Own Funds Part of the PRA Rulebook.

[19] CDR requirements for own funds are currently set out in Articles 62 to 82.

5.4 Following consideration of respondents' comments and consequential amendments described above, the PRA has made minor changes to draft proposal 1 from Chapter 7 of CP5/24, the Own Funds SoP and related rulebook chapters. These changes included:

- moving the revised definition of ROF from the Own Funds Part to the Glossary Part of the PRA Rulebook Glossary;
- revising the numbering in the Own Funds Part of the PRA Rulebook housing the restatement of CDR Article 81 to Chapter 3L, and updating relevant cross references accordingly;
- updating the PRA Rulebook definitions of Tier 2 own funds and Tier 3 own funds;
- replacing references to Directive 2006/48/EC within Rule 3K.6 of the Own Funds Part of the Rulebook with references to the articles within the CRR that replaced the relevant parts of that Directive; and
- making minor grammatical improvements and corrections within the Own Funds Part of the Rulebook and the Own Funds SoP.

5.5 In addition, the PRA has relocated the amendments to the PRA Rulebook resulting from Proposal 4 of Chapter 7 in CP5/24 into Annex M of Appendix 6 of this PS. This change separates these amendments to the Own Funds Part of the PRA Rulebook from those made by other proposals of Chapter 7 reflected in Annex L of Appendix 6.[20] This change is intended to distinguish the different implementation dates clearly for these amendments when compared with all other changes in this PS, but this does not impact the underlying policy intent.

Feedback to responses

5.6 The PRA received two responses to Chapter 7 of CP5/24. Details of these responses and the PRA's feedback is described under the following groupings.

Comments relating to ROF and RFF definitions

5.7 Part of Proposal 1 of Chapter 7 of CP5/24 included the PRA's proposal to restate the definition of ROF from CDR Article 80(1) into a definition in the Own Funds Part of the PRA Rulebook. The remainder of Article 80 was proposed to be restated into Own Funds 3L. The PRA considered this approach was consistent with the structure of the PRA Rulebook, which sets out definitions in the PRA Rulebook Glossary or in the 'application and definitions' chapter in each Part, rather than within the main Rulebook text. As described in paragraph 5.3, the PRA has amended the proposed ROF definition, following changes made to the RFF definition, and has included the content of CDR Article 80(2). The PRA has also decided to

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[20] In CP5/24, the amendments to the Own Funds Part resulting from all four proposals of Chapter 7 appeared together in Annex I of the draft rule instrument.

move the ROF definition to the PRA Rulebook Glossary as this term applies to multiple Parts of the Rulebook.

5.8 One respondent considered that the reference to ‘own fund items within a ring-fenced fund’ within the proposed ROF definition was ambiguous and the definition should also include the content of CDR Article 80(2). The respondent speculated that there may be separate own funds items within an RFF, but noted that it is generally the case that the own funds within an RFF are the excess of assets over liabilities within the arrangement that would contribute to the firm’s reconciliation reserve. The respondent suggested the PRA consider revising the drafting of the definition to clarify that ROF could include other parts of the excess of assets over liabilities not represented by an own funds item, in order to be more precise.

5.9 After considering the response, the PRA has decided not to change the reference to own fund items in the ROF definition proposed in CP5/24. The PRA considers that the use of own fund items in the context of the definition of ROF preserves the existing policy intent and articulation of CDR Article 80. The PRA acknowledges the respondent’s comment as an accurate description of the main source of own funds within a RFF or matching adjustment portfolio, but considers that altering the ROF definition as suggested would deviate from the existing policy intent and articulation set by Article 80.

5.10 One respondent commented that the ROF definition proposed in CP5/24 generally applies to all RFFs and MAPs and differs from the scope of CDR Article 80, which the respondent interpreted as applying only to RFFs for which future transfers attributable to shareholders are relevant. The respondent asked whether the wording of the ROF definition proposed in CP5/24 represented a change in policy, or the correction of a possible flaw that exists in the CDR.

5.11 The PRA considers that the existing ROF definition in CDR Article 80 could be relevant to all RFFs and MAPs, not only to RFFs for which ‘future transfers attributable to shareholders’ are relevant. The PRA considers that this context is clear from the wording of CDR Articles 70(1)(e) and 81(1), which the PRA is restating as Own Funds 3C.1(5) and 3L.1 within the PRA Rulebook. On that basis, the PRA considers that the final ROF definition in the PRA Rulebook Glossary represents neither a change in PRA policy, nor correction of a flaw in the CDR.

5.12 As described in paragraph 5.3 the PRA has decided to delete the explicit reference to own funds being ‘within a ring-fenced fund or a matching adjustment portfolio’ to break the circularity that would otherwise arise between the definition of ROF and the updated definition of RFF. This also does not represent a change in policy. The context in which ROF apply, ie in the case of RFFs and MAPs, is set in the relevant rules that refer to the defined

term. The PRA considers it is not necessary to set the context in which ROF are relevant within the definition itself.

Comments that led to other minor drafting changes

5.13 In Proposal 1 of Chapter 7 of CP5/24 the PRA proposed to restate all relevant own funds requirements from the CDR in the Own Funds Part of the PRA Rulebook or relevant policy material. One respondent suggested the following grammatical and referencing corrections:

- the need to add references to the detailed requirements for Tier 2 ancillary own funds within the definition of Tier 2 own funds, and Tier 3 ancillary own funds within the definition of Tier 3 own funds in the PRA Rulebook Glossary;
- the correction of grammatical errors in proposed rules 3K.6(2) and 4A.2 in the Own Funds Part of the PRA Rulebook; and
- an incorrect reference to FSMA 2023 in the Own Funds SoP, which should have referenced FSMA 2000.

5.14 The PRA has decided to amend the drafting of the Own Funds Part of the PRA Rulebook and the Own Funds SoP to address all three of these points. The PRA considers that these changes are consistent with the original policy intent of the proposal.

Suggested amendments to the PRA Rulebook and policy

5.15 One respondent suggested improvements that could be made to the PRA rulebook and policy in relation to own funds:

- the apparent duplication of eligibility requirements, where the on-shored Directive requirements at Own Funds 4, are now situated next to the CDR Article 82 requirements in Own Funds 4A;
- an alternative approach to the restatement of a reference to the Solvency II Directive in the definition of ancillary own funds within the PRA Rulebook Glossary;
- the drafting of aspects of the ancillary own funds, basic own funds, and own funds definitions;
- the approach to deducting restricted own funds in calculating the reconciliation reserve, where those restricted own funds are own funds items other than the excess of assets over liabilities; and
- the requirement for firms to make deductions from corresponding tiers of own funds when holding investments in participations, as set out in rule 3K.6.

5.16 The respondent also identified areas which, in their view, were examples of historical ambiguity or error within the inherited legislation being restated in the Own Funds Part of the Rulebook. These comments related to:

- ambiguity in the method for calculating the reconciliation reserve as outlined in 3C of the Own Funds Part of the PRA Rulebook;
- potential duplication and ambiguity of the requirement to make deductions related to restricted own funds when calculating the reconciliation reserve using either full or simplified approaches; and
- the treatment of certain items not on the list (INOLs) when calculating the reconciliation reserve.

5.17 After considering the responses, the PRA has decided not to change the draft policy. The PRA considers that the proposed restatement in these areas is reflective of the existing requirements on firms within the current Solvency II framework. The improvements and amendments proposed by respondents are helpful, however fall beyond the purpose and scope of CP5/24.

6: Standard Formula Proposal 1: Restatement of assimilated law for the areas covered

Introduction

6.1 This chapter provides feedback to responses to Proposal 1 of Chapter 8 (Solvency Capital Requirement – Standard Formula) of CP5/24, which set out the PRA's proposals to restate assimilated law pertaining to the Solvency II Standard Formula within the PRA's policy framework. It also confirms the PRA's final policy relating to those proposals, which will:

- amend the Solvency Capital Requirement – Standard Formula ('SCR-SF') Part, Conditions Governing Business Part, Third Country Branches Part, Transitional Measures Part, and Glossary Part of the PRA Rulebook (Appendices 4 and 6);
- create a new PRA Rulebook Part: Solvency Capital Requirement – Undertaking Specific Parameters (Appendix 6, herein referred to as 'SCR-USP');
- amend the PRA's existing Statement of Policy (SoP) – The PRA's approach to the publication of Solvency II technical information (Appendix 9); and
- create a new SoP – Solvency II: The PRA's approach to Standard Formula adaptations (Appendix 13, herein referred to as the 'SF SoP').

Changes to draft policy

6.2. Following consideration of comments from respondents, the PRA has made minor changes to the draft policy proposed in CP5/24. A summary of changes is set out below.

6.3 The PRA has updated cross-references within the SCR-SF Part of the PRA Rulebook, including amendments to:

- SCR-SF 2.2 to include a cross-reference to Own Funds 3L.2, which exempts a firm from adjusting the calculation of its SF SCR for RFFs with immaterial assets, liabilities, and risk (as described in paragraphs 6.7 and 6.8);
- SCR-SF 7.35 and SCR-SF 3E4 to include a cross-reference SCR-SF 3E10, which prescribes the value of the 'F factors' (as described in paragraphs 6.19 to 6.22); and
- SCR-SF 3D24.13, 3D26.11, 3E6.2, 3E12.6, and 3G5.2 to include reference to the new Overseas Insurance Regime in the 'IRPR regulations 2023' (as described in paragraphs 6.13 and 6.14).

6.4 The PRA has amended or introduced the following PRA Rulebook definitions:

- ‘Undertaking Specific Parameter’ (‘USP’) and ‘Group Specific Parameter’ (‘GSP’), as described in paragraphs 6.29 and 6.30;
- ‘basic SCR’ as described in paragraphs 6.31 and 6.32, along with additional minor changes to improve accuracy and clarity; and
- a new definition ‘UK Solvency II undertaking’ in SCR-SF 1.2 to cover both UK Solvency II firms and ‘Lloyd’s’, which is necessary to encompass within the restated rules the range of counterparties that are covered by reference to ‘insurance and reinsurance undertakings’ in a number of provisions within the CDR.

6.5 The PRA has also restated descriptions of risks covered in the SF SCR calculation as PRA Rulebook definitions. In addition, the PRA has corrected several formulae within the SCR-USP Part of the PRA Rulebook. The PRA has also made minor amendments to draft rules, definitions and the SF SoP to incorporate the restated provisions, including corrections to typographical errors and improvements to the clarity and consistency of the final policy (as described in paragraphs 6.9 to 6.12, 6.15 to 6.16 and 6.35 to 6.38 below).

Feedback to responses

6.6 The PRA received comments from three respondents in respect of Proposal 1. The content of those responses and the PRA’s feedback are described below.

Correction to restatement of CDR Article 216(1) regarding materiality of RFFs

6.7 One respondent commented that the proposed restatement of CDR Article 216(1) within SCR-SF 2.2 omitted an essential cross-reference to Own Funds 3M.1, in which the PRA proposed to restate CDR Article 81(1). The respondent commented that this would require a firm to make an adjustment to its SCR for every RFF – rather than only those that are considered material and for which an adjustment to own funds is made pursuant to CDR Article 81(1), which is not consistent with the existing requirements.

6.8 The PRA agrees with the respondent’s feedback on its proposed restatement of CDR Article 216(1). Therefore, the PRA has decided to amend the wording of SCR-SF 2.2 proposed in CP5/24, to include a cross-reference to Own Funds 3L.2, the rule that restates CDR Article 81(2) (which in CP5/24 was numbered Own Funds 3M.2). This amendment to SCR-SF 2.2 essentially restates the derogation for immaterial RFFs in CDR Article 81(2), ie exempting a firm from adjusting the calculation of its SF SCR where it reduces the reconciliation reserve by the total amount of ‘restricted own funds’, thereby preserving the existing policy intent.

Amendments to draft rules

6.9 Two respondents commented that the formulae within restated CDR articles in the draft rule instrument were difficult to read and suggested that the PRA correct the formatting to make them more legible.

6.10 The PRA acknowledges the respondent's comments and noted the issue of legibility in paragraph 1.58 in Chapter 1 of CP5/24. To address this, the PRA has amended the formatting of all formulae within rules restating assimilated law as part of this PS to ensure that they are all clear and legible.

6.11 Two respondents identified what they considered to be minor drafting errors within the draft rule instrument:

- the text in SCR-SF 3C17.2(2) should be amended to say 'group income protection reinsurance obligations';
- SCR-SF 3D23.1 should reference 3D23.4 instead of 3D24.5;
- SCR-SF 3.18(4) should reference 3E3.9 instead of 3E.9; and
- SCR-SF 3G6.1 should reference 3G2 instead of 3F2.

6.12 The PRA agrees with these comments and has corrected the drafting errors identified by the respondent. The PRA has also decided to make additional changes to some of the provisions listed in the previous paragraph, as described above in 6.5.

6.13 Two respondents noted that the PRA's proposed restatement of several CDR articles within the SCR-SF Part of the PRA Rulebook contain references to CDR Articles 378A and 379A relating to equivalence. The respondents asked if CDR Articles 378A and 379A will be retained in UK legislation or restated within the PRA's policy framework.

6.14 In the final rules published as part of this PS, the PRA has amended the following rules to replace references to CDR Articles 378A and 379A with references to the new Overseas Insurance Regime in Part 4 of the 'IRPR regulations 2023': SCR-SF 3D24.13, 3D26.11, 3E6.2, 3E12.6, and 3G5.2.

6.15 One respondent raised what they considered to be an error in SCR-SF 3B6.6, in which the PRA proposed to restate CDR Article 142(6) relating to the calculation of the capital requirement for mass lapse risk. The respondent commented that the reference to authorization class II (in respect of 'Marriage and birth') in Schedule 1, Part II of the Regulated Activities Order (RAO) within SCR-SF 3B6.6 should instead refer to class III ('Linked long term').

6.16 The PRA agrees with the respondent and has corrected the cross-reference in its final policy so that SCR-SF 3B6.6 instead refers to RAO Schedule 1 Part II class III.

6.17 The same respondent also queried the reference to RAO authorization classes within SF SCR calculation rules, given that those rules typically refer instead to Solvency II lines of business.

6.18 After considering the response, the PRA has decided not to change its draft policy. The PRA considers that references to authorisation classes in Schedule 1, Part II of the RAO in SCR-SF 3B6.6 accurately preserve the existing policy intent. CDR Article 142(6) refers to Article 2(3)(b)(iii) and (iv) of Directive 2009/138/EC, which HMT transposed into RAO Schedule 1, Part II, classes VII and III.

Restatement of CDR articles relating to loss-given-default provisions

6.19 One respondent requested that the PRA add a cross-reference to SCR-SF 7.35 within SCR-SF 3E10.7, which prescribes the values of 'F factors'. Those provisions are the PRA's proposed restatement of CDR Articles 112a and 197(7) in CP5/24, respectively. The respondent asserted that the lack of a cross-reference to CDR Article 112a within Article 197(7) is an oversight.

6.20 After considering the response, the PRA agrees with the respondent and has decided to amend SCR-SF 3E10.7 to include a cross-reference to SCR-SF 7.35. The PRA has also decided to amend SCR-SF 7.35 to include a reciprocal cross-reference to SCR-SF 3E10.7. The PRA considers that these amendments will make it clearer for firms that are eligible to use the simplified calculation set out in SCR-SF 7.35 as to where to obtain the value of the F factor to use in the calculation. Despite this change, the PRA considers that the lack of a cross-reference to CDR Article 112a within Article 197(7) is not an oversight, for the following reason: Article 112a sets out the formula for the simplified calculation of the loss-given-default on a reinsurance arrangement or insurance securitisation referred to the first sub-paragraph of Article 192(2), which Article 197(7) cross-refers to in the context of prescribing values for F factors. Therefore, the PRA considers the existing policy intent is for the F factor in CDR Article 112a to be that defined in CDR Article 197(7).

6.21 In addition, the PRA has decided to amend the other restated provisions within SCR-SF 3E4 that reference F factors to include cross-references to SCR-SF 3E10.7. The PRA considers that those cross-references will improve the clarity of those provisions.

6.22 The PRA considers that the amendments described in the preceding paragraphs do not constitute a change in policy intent.

6.23 One respondent suggested the F factor referenced in SCR-SF 7.35, in which the PRA proposed to restate CDR Article 112a, could be an error and should instead refer to the F''' factor.

6.24 After considering the response, the PRA has decided not to change the F factor referenced in SCR-SF 7.35. The PRA acknowledges the respondent's comment, but considers that its proposed restatement of CDR Article 112a in SCR-SF 7.35 accurately preserves the existing requirements on firms. The PRA considers that there is no clear evidence that CDR Article 112a should refer to the F''' factor instead of the F factor. To

replace the F factor with F''' would change the substance of the requirements on firms, which is beyond the scope of the PRA's proposed restatement of CDR Article 112a in CP5/24.

6.25 One respondent suggested that the PRA should restate CDR Article 197(7) as a separate rule instead of including it within SCR-SF 3E10.7, as proposed in CP5/24. The respondent's view was that the substance of that provision, ie prescribing the values of F factors, has little connection with the content of the rest of 3E10.

6.26 After considering the response, the PRA has decided not to make the change suggested by the respondent. The PRA considers that including CDR Article 197(7) within the same rule that restates the rest of Article 197 is appropriate and accurately preserves the existing policy intent.

6.27 One respondent suggested the following amendments to the PRA's restatement of CDR provisions within the PRA Rulebook, to correct perceived errors and/or provide additional clarity in respect of calculations pertaining to loss-given-default:

- that reference to the F' factor in the restatement of CDR Article 192(2) in SCR-SF 3E4.4 is an error and should instead refer to the F''' factor, noting that the F factor values are prescribed within CDR Article 197(7), which the PRA proposed to restate in SCR-SF 3E10.7 in CP5/24;
- that the conditions to justify the use of a 100% F factor in CDR Article 197(7), which the PRA proposed to restate in SCR-SF 3E10.7 in CP5/24, is difficult for firms to interpret and encouraged the PRA to address the perceived obscurity of the provision in its restatement; and
- that CDR Article 197(5), which the PRA proposed to restate in SCR-SF 3E10.5 in CP5/24, is silent on the treatment of reinsurance recoverables in the calculation of the risk-adjusted value of collateral, that this incentivises collateral mismatch, and that the PRA should amend the rules to explicitly address this point.

6.28 After considering the responses, the PRA has decided not to change its draft policy in relation to the points highlighted by the respondent in the previous paragraph. The PRA considers that its proposed restatement of CDR Articles 192(2), 197(5) and (7) within SCR-SF 3E4.4, 3E10.5 and 3E10.7 accurately preserves the existing requirements on firms.

Suggestions for minor amendments to Glossary definitions

6.29 One respondent commented that the definition of the term USP proposed for inclusion within the PRA Rulebook Glossary by the PRA in CP5/24 is inaccurate as it defines a USP as 'the replacement of a standard parameter… with a parameter specific to a *firm*'; but a USP is still a parameter, not a replacement. The respondent commented that a similar issue applies to the definition of GSP proposed for inclusion within the Group Supervision Part of the PRA Rulebook. The respondent also commented that, if the PRA amends the definitions of USP

and GSP proposed in CP5/24, then it should also amend the text in paragraph 2.5 of the SF SoP for consistency.

6.30 After considering the response, the PRA agrees with the comment and has modified the definitions of USP and GSP in line with the respondent's comment, to improve clarity. The PRA has also amended paragraph 2.5 of the SF SoP for consistency.

6.31 One respondent suggested the PRA amend the existing definition of 'basic SCR' within the PRA Rulebook Glossary. The respondent commented there is no concept of 'minimum basic SCR' within UK Solvency II and suggested the PRA consider removing the word 'minimum' from the definition.

6.32 The PRA agrees with the comment and has modified the definition of 'basic SCR' in the PRA Rulebook Glossary in line with the respondent's suggestion. The PRA has also made additional changes to the definition to improve clarity and preserve the existing policy intent.

6.33 One respondent suggested the PRA consider making amendments to the definitions of 'captive insurer' and 'captive reinsurer' in the PRA Rulebook Glossary. The respondent commented that an insurer writing both direct and fronted captive risks would fall outside both definitions, and suggested amendments to those definitions to address the limitation.

6.34 After considering the response, the PRA has decided not to change the definitions of 'captive insurer' and 'captive reinsurer' as suggested. In CP5/24 the PRA proposed to move the existing definitions of those terms from the Minimum Capital Requirement Part of the PRA Rulebook to the Glossary Part, with no changes to the substance of the definitions, on the basis that the definitions would be used in multiple parts of the Rulebook. The PRA considers that the current definition of 'captive insurer' covers captives writing both direct insurance and reinsurance business and the definition of 'captive re-insurer' is limited to captives that are pure reinsurers. Therefore, the PRA considers that the suggested amendment is not necessary.

Correcting wording errors in the SF SoP

6.35 One respondent commented on typographical errors and incomplete references in the SF SoP, including in paragraphs 1.2 and 2.31.

6.36 The PRA agrees with the comment and has updated the SF SoP to correct the errors identified by the respondent.

Errors relating to mapping tables

6.37 Two respondents pointed out an error in the mapping tables published in Appendix 2 of CP5/24. Specifically, CDR Article 84 was incorrectly mapped to SCR-SF 2.2, when it should have been mapped to SCR-SF 2.3.

6.38 The PRA acknowledges the error in the mapping table identified by the respondent. The PRA has corrected the relevant mapping table entry to reflect its final policy. The mapping tables can be found in Appendix 8 of this PS.

7: Standard Formula Proposal 2: Notifications and further use of section 138BA permissions

Introduction

7.1 This chapter provides feedback to responses received in respect of proposal 2 of Chapter 8 (Solvency Capital Requirement – Standard Formula) of CP5/24, pertaining to 'Notifications and further use of s138BA permissions'. It also confirms the PRA's final policy relating to that proposal which will:

- amend the Solvency Capital Requirement – Standard Formula (SCR-SF) Part of the PRA Rulebook (Appendix 6); and
- create a new SoP – Solvency II: The PRA's approach to Standard Formula adaptations (Appendix 13)(SF SoP).

7.2 In proposal 2 of Chapter 8 of CP5/24, the PRA proposed the restatement of several SF articles in the CDR which allow firms to take an alternative approach where they are able to demonstrate to the PRA's satisfaction that they comply with a set of criteria:

- For CDR Articles 164a(1)(d), 164b(5), 171a(1), and 176b(c) the PRA proposed to retain the underlying requirement to comply with the criteria when restating the rules in the SCR-SF Part of the PRA Rulebook, but to replace the requirement to demonstrate compliance to the PRA's satisfaction with a notification requirement, herein referred to as standard formula (SF) notifications.
- For CDR Article 207(2a) the PRA proposed to maintain the default prohibition on the utilisation of an increase in deferred tax assets (DTA) for the purposes of calculating the adjustment for the loss absorbing capacity of deferred taxes (LACDT) when restating the rule in the SCR-SF Part of the PRA Rulebook.
- The PRA also proposed to permit modification of that rule where a firm is able to demonstrate to the PRA's satisfaction that it is probable that future taxable profits will be available after the instantaneous loss described in rule 6.4(1) of the SF-SCR Part (which restates CDR Article 207(1)), and where the projections and assumptions comply with the conditions set out in the proposed new SF SoP (which restate aspects of CDR Articles 207(2a)(a) to (c), (2b), and (2c)); herein referred to as 's138BA permission for LACDT'.
- The PRA proposed one additional, proportionate modification option, not present in CDR Article 207, as a way to expedite utilisation of this measure where doing so would be particularly straightforward and not be detrimental to the PRA's primary objective. This was a limited modification of the rule by consent (MbC), which would be available to firms reporting a ratio of eligible own funds to SCR not less than 175%,

where the contribution of an increase in DTA to the LACDT adjustment would be capped at a moderate percentage of the instantaneous loss specified in the scope of the permission (eg 5%).

7.3 The majority of responses to CP5/24 commented on PRA proposals to restate Article 207 of the LACDT. This feedback was centred around timescales for year end 2024 and concerns that the PRA was raising the bar or changing existing policy. As using future taxable profits within the LACDT calculation can make a considerable difference to the overall SCR result, paragraph 2a of Article 207 is clear that any such allowance should only be allowed upon satisfaction of the supervisory authority. The PRA considers that a s138BA permission process with an accompanying SoP is an appropriate way to restate the requirements. The PRA emphasises that the substance of the requirements is not changing and hence firms with existing approvals should currently be meeting them.

7.4 The PRA agrees with the feedback that there may be insufficient time between the publication of the final policy and year end 2024 for the S138BA permission process. To mitigate this the PRA is introducing a transitional period until 30th December 2025 as detailed in paragraph 7.7.

7.5 This chapter also responds to the large number of technical points raised by CP respondents in respect of LACDT and standard formula notifications.

Changes to draft policy

SF notifications

7.6 The PRA has made minor changes to the draft policy pertaining to the SF notifications, which correspond to the PRA's restatement of CDR Articles 164a(1)(d), 164b(5), 171a(1), and 176b(c). The aim of those changes is to provide firms with additional clarity:

- The PRA will require firms to submit supervisory notifications required by rules 3D2.1(6), 3D3.1(5), 3D11.1, and 3D19.1(2) in the SCR-SF Part of the PRA Rulebook in writing before they make use of an alternative approach permitted by those rules.
- The PRA has provided a simple notification form on its website for firms to provide a notification to the PRA in a consistent format.[21]
- The PRA will require firms that have previously demonstrated compliance with the relevant criteria to the satisfaction of the PRA and continue to take alternative approach(es) when the restated rules come into force to re-notify the PRA in writing by 31 January 2025 (under new rules SCR-SF 3D2.3, 3D3.2, 3D11.4 and 3D19.2). The PRA has provided the same notification form for this purpose.

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s138BA permission for LACDT

7.7 The PRA has made the following change in relation to the proposed restatement of CDR Article 207.

- The PRA has introduced a new transitional rule in chapter 6 of the SCR-SF Part of the PRA Rulebook (rule 6.5) that delays the requirement for a firm to obtain a s138BA permission to utilise an increase in DTA that would be available after the instantaneous loss described in rule 6.4(1) of the SF-SCR Part within its LACDT calculations.
- During the transitional period from 31 December 2024 to 30 December 2025 a firm will be able to recognise such an increase in DTA provided that:
    - it is probable that future taxable profit will be available against which that increase can be utilised;
    - the firm complies with the requirements specified within the transitional rule SCR-SF 6.5, the substance of which is equivalent to the existing criteria under CDR Articles 207(2a)(a) to (c), (2b), and (2c);
    - the firm notifies the PRA in advance of its intention to do so in writing; and
    - the firm ensures that it has documentary evidence on hand and available on request explaining how it complies with the relevant conditions.
- Notwithstanding the transitional rule, a firm will still be able to apply for a s138BA permission for LACDT as proposed in CP5/24 with an effective date before 30 December 2025 if it wishes to do so.

7.8 The PRA has also made the following changes to the new SF SoP (Appendix 12) to address comments made by respondents and reflect the introduction of the transitional rule:

- added new paragraphs 4.4 and 4.5 outlining the introduction of the new transitional rule;
- amended paragraph 4.7 to remove reference to a 1-in-200 shock as it is not explicitly stated in paragraph 6.4 of the SF-SCR Part of the PRA Rulebook;
- amended paragraph 4.8(a) to specify that the increase in DTA that a firm can recognise within its LACDT calculation using the MbC option is capped at a moderate percentage (5%) of the instantaneous loss described in rule 6.4(1) of the SF-SCR Part of the PRA Rulebook;
- added a new paragraph 4.9 to clarify that the s138BA permission allows firms to recognise an increase in DTA and recalculate their probable FTP until the permission expires;
- added a new paragraph 4.11 to clarify the MbC criterion during and after the transitional rule;

- amended paragraph 4.14 to clarify that the points listed constitute guidance for firms as to what information the PRA would consider helpful when assessing applications and deciding whether to grant a s138BA permission for LACDT, and are not additional requirements that firms must meet to obtain a permission;
- added a new paragraph 4.15 to make firms aware of maintaining documentary evidence of their compliance with the criteria and factors mentioned in SF SoP paragraphs 4.12 – 4.13. Firms should be prepared to provide this evidence upon request;
- added a new paragraph 4.16 to clarify that relevant evidence used to support a supervisory determination under CDR Article 207(2a), which is held by a firm immediately before the implementation date of chapter 6 of the SCR-SF Part of the PRA Rulebook, may be used to support a s138BA permission for LACDT, provided it satisfies the relevant criteria in SF SoP paragraphs 4.12 – 4.14, is up to date, and otherwise remains relevant to the PRA's assessment; and
- added a new paragraph 4.17 and amended 4.24 to give additional information on how the PRA expects to review the appropriateness of any permission on an ongoing basis.

PRA objectives analysis

7.9 The PRA considers that the changes listed in paragraphs 7.6 and 7.8 above do not alter the intent of the policy proposed in CP5/24.Therefore, the PRA considers that its objectives analysis relating to its proposed restatement of LACDT criteria set out in Chapters 1 (Overview) and 8 (Solvency Capital Requirement – Standard Formula) of CP5/24 remains valid. The following paragraphs set out additional PRA objectives analysis relating to the new transitional measure not consulted on in CP5/24 but which the PRA has included in its final policy.

7.10 The PRA considers that the new transitional rule described in paragraph 7.7 above would continue to advance its primary objectives of safety and soundness and policyholder protection for the following reasons:

- the requirements within the transitional rule are substantively the same as those the PRA will take into account when considering applications for s138BA permission for LACDT (as consulted on in CP5/24) and also the existing requirements in CDR Article 207(2a)(a) to (c), (2b), and (2c);
- the transitional rule only temporarily delays the requirement for a firm to obtain a relevant s138BA permission for LACDT, ie the procedural element associated with the LACDT content of Proposal 2 of Chapter 8 of CP5/24; and
- during the transitional period, for a firm to utilise an increase in DTA within its LACDT calculation it would need to comply with the requirements outlined in bullet 2 of paragraph 7.7 above.

7.11 The PRA considers that the new transitional rule would also advance its secondary competition objective. Some firms could have been disproportionately affected by the implementation of a s138BA permission process for LACDT due to the short period of time for firms to submit applications and receive decisions from the PRA between the publication of this PS and year-end 2024. The PRA considers that the new transitional rule could potentially lead to fairer outcomes as regards consistent treatment of firms.

7.12 The PRA further considers that the new transitional rule would have a limited impact on its secondary objective to facilitate international competitiveness and growth of the UK economy (SCGO), given that it is a 12-month measure designed to mitigate potential negative consequences of introducing the procedural s138BA permission element of the LACDT proposals in CP5/24 at year-end 2024.

Cost benefit analysis

7.13 The PRA considers that the changes described in paragraphs 7.6 and 7.8 are consistent with the policy intent of the original proposals and do not change the cost benefit analysis set out in Chapters 1 and 8 of CP5/24. The following paragraphs set out additional cost benefit considerations relating to the new temporary transitional measure in respect of s138BA permissions for LACDT not consulted on in CP, but which the PRA has included in its final policy.

Introduction of a new transitional period

7.14 The end state of the PRA's overall policy on recognition of an increase in DTA within firms' LACDT calculations, including the new transitional period, is the same as that consulted on within CP5/24. In that respect the PRA considers that the CBA set out in CP5/24 remains valid.

7.15 The PRA expects that any impact on costs for firms stemming from the new transitional measure will be broadly neutral irrespective of whether a firm makes use of the new transitional rule. This is because the requirements set out in the transitional rule (paragraph 7.7) are substantively the same as those for s138BA permission for LACDT consulted on in CP5/24 and also the existing requirements in CDR Article 207(2a)(a) to (c), (2b), and (2c). The costs associated with documenting evidence as regards compliance should be the same as those associated with submitting a full application for s138BA permission for LACDT.

7.16 Furthermore the PRA expects that the requirement for a firm to notify the PRA in advance in writing of its intention to make use of the new transitional rule will not lead to a material increase in costs to firms.

7.17 The PRA expects that the new transitional period will provide marginal benefits for firms seeking to utilise an increase in DTA within their LACDT calculations by delaying the

requirement to obtain a s138BA permission for LACDT. A firm that makes use of the new transitional rule will have additional time to prepare and submit a s138BA application to the PRA. A firm still need to meet all the criteria set out in the second bullet of paragraph 7.7.

7.18 The PRA therefore considers that the benefits of the new transitional rule described in paragraph 7.7 outweigh the costs.

Have regards analysis

7.19 The PRA considers that the changes described in paragraph 7.7 are consistent with the policy intent of the original proposals and do not change the have regards analysis set out in chapters 1 and 8 of CP5/24. The following paragraphs set out additional have regards analysis relating to the new transitional measure not consulted on in CP5/24 but which the PRA has included in its final policy.

7.20 The PRA consider that the following factors to which the PRA is required to have regard are significant in the PRA's analysis of the new transitional rule:

- The need to use the PRA's resources in the most efficient and economical way (FSMA regulatory principles): the PRA considers that the new transitional rule that would apply to all firms is an efficient way to address the limited amount of time that firms might have to apply for a relevant s138BA permission and receive a decision from the PRA between publication of the PRA's final policy and the implementation date of that policy on 31 December 2024.
- Consistent (Legislative and Regulatory Reform Act 2006): the new transitional rule ensures consistency of treatment across firms by having a single rule for all.
- Targeted only at cases in which action is needed (Legislative and Regulatory Reform Act 2006): the new transitional rule is targeted to address a very specific issue that affects UK Solvency II firms relating to the utilisation of an increase in DTA within their LACDT calculations.

7.21 The PRA has had regard to other factors as required. Where analysis has not been provided against a have regard in this section, it is because the PRA considers that have regard to not be a significant factor for the new transitional rule described in paragraph 7.7 above.

Feedback to responses

7.22 The PRA received 12 responses in respect of proposal 2 of Chapter 8 of CP5/24. This section sets out a summary of those responses grouped by theme and the PRA's feedback to those responses.

SF Notifications (excluding LACDT)

7.23 The PRA received four responses requesting further detail on the notification requirements proposed in CP5/24 including on the frequency of notification, the level of detail firms will be required to provide, and ongoing requirements to update the PRA.

7.24 After considering the responses the PRA has decided to make the following changes to its draft policy to clarify that:

- Firms are required to submit SF notifications to the PRA in writing before they make use of an alternative approach permitted by rules 3D2.1(6), 3D3.1(5), 3D11.1, and 3D19.1(2) in the SCR-SF Part of the PRA Rulebook. The PRA has updated the wording of those rules to clarify this point. The PRA has published a notification submission template on its website to assist firms in meeting this requirement.[22]
- Firms are not required to submit additional supporting information or analysis to demonstrate compliance with the relevant criteria.
- Supervisory notification is only required before a firm treats a specific infrastructure entity as a qualifying investment (3D2) or as a qualifying corporate investment (3D3), treats a specific sub-set of equity investments as long-term investments (3D11), or assigns a specific bond or loan with an own internal credit assessment to a credit quality step (3D18).
- There are no ongoing notification requirements for the continuing use of the alternative approach for each of the specific assets described in the previous bullet point.
- Where a firm has previously demonstrated compliance with the relevant criteria to the PRA's satisfaction under the existing CDR requirements it will need to submit the relevant notifications to the PRA by 31 January 2025, if it intends to continue using the alternative approaches (rules 3D2, 3D3, 3D11, and 3D19 in the SCR-SF Part of the PRA Rulebook).

7.25 The PRA expects firms that make use of these alternative approaches to maintain documentation demonstrating how they comply with the requirements of the rules. The PRA may request to see that documentation as part of its regular supervisory engagement with firms.

7.26 The PRA also notes that restatement of the rules listed in paragraph 7.24 changes the nature of the requirement on firms from having to 'demonstrate compliance with the relevant criteria to the satisfaction of the PRA' to notifying the PRA of their intent to use an alternative approach permitted within the restated rules, subject to meeting the relevant criteria. This change may bring a firm's compliance with the restated requirements within scope of the review of its SCR calculation by its external auditor which might have placed reliance on the

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PRA having expressed its satisfaction that the relevant criteria were complied with. Given the objective nature of the restated rules requiring notification the PRA does not expect the change in the nature of the requirements to lead to a material increase in costs for firms.

7.27 The PRA received four responses questioning whether the supervisory notification requirements relating to SF provisions apply to internal model (IM) firms including in the context of completing the SF01 template.

7.28 After considering the responses the PRA confirms that the supervisory notification requirements set out in proposal 2 of CP5/24 are not applicable to full or partial IM firms where they estimate their SCR for the purpose of SF.01 reporting and for compliance with SCR-IM 3.4.

LACDT permission process and timelines

7.29 Three respondents suggested the existing requirements under CDR Article 207 (ie to demonstrate compliance with the relevant conditions to the satisfaction of the PRA) are more efficient and economical from a process perspective for granting supervisory determinations compared with the proposed s138BA permissions for LACDT. Two respondents suggested that where the PRA has not objected to a firm's current recognition of future taxable profits in its LACDT calculations the PRA should grant a s138BA permission without the firm needing to submit a formal application. Another respondent noted that existing CDR Article 207 requires firms to demonstrate that future taxable profits are likely. In the respondent's view the existing process entails a firm submitting its policy on calculating LACDT to the PRA for review and the PRA would accept or challenge it. In addition, the respondent considered that the requiring firms to apply for permission even if they have not changed their LACDT policy is at odds with the PRA position on this being a restatement exercise.

7.30 After considering the responses the PRA has decided not to change the draft policy. The proposals in CP5/24 maintain the substance of the existing LACDT requirements by means of creating a permission process using s138BA FSMA, with retention of the relevant criteria in paragraphs 4.12 to 4.13 of the SF SoP. This approach represents a change to the process for demonstrating compliance with the criteria to the PRA's satisfaction but not to the substance of the assessment or the default prohibition.

7.31 The PRA considers that, given the subjective nature and large potential benefit of LACDT a permission process is an appropriate way to restate CDR Article 207(2). Furthermore the PRA notes that the s138BA permission process consulted on is consistent with the PRA's SoP on permissions.[23] The PRA has clarified in paragraph 4.16 of the SF SoP that if a firm has previously received a determination from the PRA to recognise an increase in DTA in its LACDT calculations, and where the assumptions and/or operating conditions

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have not materially changed, that it should be able to use that evidence to support its application for s138BA permission.

7.32 Eight respondents shared concerns that there is insufficient time between the publication of the PRA's final policy and the implementation date of 31 December 2024 for obtaining a s138BA permission for LACDT. One respondent suggested having a legacy arrangement with a longer window for individual firms and the PRA to work together to approve or refine current arrangements.

7.33 In addition respondents made the following comments relating to the short timeframe between publication of the final policy and the 31 December 2024 implementation date:

- Four respondents recommended extending the deadline to give both firms and the PRA sufficient time to evaluate applications for s138BA permissions for LACDT including for complex cases. Three respondents suggested delaying the implementation of the requirement for firms to obtain a s138BA permission for LACDT to 31 December 2025 should the PRA decide to proceed with its proposals in CP5/24.
- Furthermore two of those respondents highlighted that the short timeframe would create a cliff-edge scenario putting significant time and operational pressures on firms to finalise and submit applications for s138BA permissions for LACDT and equally on the PRA to review the applications. Those pressures could potentially lead to unjustified volatility in firms' solvency coverage levels if the PRA was unable to make decisions on the applications before year-end 2024, and firms lost the ability to recognise an increase in DTA within their LACDT calculations.
- One respondent requested the PRA to confirm supervisory timescales for considering applications for s138BA permissions for LACDT and emphasised that it would be unreasonable to expect firms to apply before publication of the final policy in the PS corresponding to CP5/24.
- One respondent asked the PRA for clarity on the complexity of the process for SF firms to gain PRA permission to utilise an increase in DTA within its LACDT calculations. The uncertainty makes it difficult to establish whether an application and decision could be achieved by 31 December 2024. The respondent also expressed concern about the PRA's capacity to reach decisions on applications for s138BA permissions for LACDT within the specified time period.

7.34 After considering the responses the PRA acknowledges the challenges described by the respondents as regards submission of applications for s138BA permissions for LACDT by firms and the PRA reaching decisions on applications by 31 December 2024, given the short timeframe between finalisation of the PRA's policy and year-end 2024. This may be particularly acute for firms without an existing supervisory determination, or in cases where there have been significant changes in assumptions and/or operating conditions since a firm's previous determination.

7.35 The PRA has therefore decided to introduce a transitional rule in respect of firms obtaining s138BA permissions to utilise an increase in DTA within their LACDT calculations as described in paragraph 7.7. The new transitional rule gives firms the option to delay gaining a s138BA permission for LACDT until 30 December 2025.

7.36 One respondent requested that the PRA specify maximum timelines between the receipt of an application and the notification of a decision.

7.37 After considering the response the PRA has decided not to change the draft policy. This is to maintain as closely as possible the specification set out in CDR Article 207 which makes no reference to timelines for reaching supervisory decisions.

7.38 One respondent queried whether s138BA permission for LACDT would be for a methodology, allowing the value of LACDT to change with each recalculation of a firm's SCR, or for a specific LACDT value, which would require a new application for each recalculation. They also asked the PRA to consider the significant operational challenges for firms if the second scenario was intended by the proposals within CP5/24.

7.39 After considering the response the PRA has decided to make an additional change to paragraph 4.24 of the SF SoP. This change is to clarify that where the PRA grants a s138BA permission for LACDT it will relate to a firm's satisfactory demonstration that the criteria set out in the SF SoP are met, rather than granting permission to recognise a specific value of LACDT. Therefore firms will not be expected to submit new applications for s138BA permissions for LACDT simply to change the value of LACDT benefit recognised in their SCR recalculations. Paragraph 4.17 has also been added to the SF SoP to make clear that, if a firm wishes to make significant changes to its approach to calculate LACDT it will be expected to notify the PRA .

7.40 The PRA will grant a s138BA permission for LACDT based on a point in time assessment of the probability that future taxable profit will be available against which an increase in DTA can be utilised by a firm following the loss referred to in rule 6.4(1) in the SCR-SF Part of the PRA Rulebook. 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 conditions set out in the SF SoP.

7.41 A s138BA permission for LACDT which modifies rule 6.4(3) of the SCR-SF Part of the PRA Rulebook is not equivalent to an internal model permission. The latter is assessed against IM requirements covering governance, methodology, assumptions, use test, validation, and documentation which provide assurance as regards the ongoing validity of an internal model. A s138BA permission for LACDT is assessed on a narrower range of criteria, and accordingly will generally be time-limited, with the length of permission depending on how long the PRA considers that it is likely to remain fit for purpose before a reassessment is necessary (eg 3 years). If at that point the firm's circumstances have not materially changed

since the permission was granted, then the PRA expects that reassessment of the firm's new s138BA permission application is likely to be straightforward. Firms are encouraged to apply for permission for a partial internal model covering the calculation of LACDT if they seek a more extensive permission to recognise an increase in DTA within their LACDT calculations.

7.42 One respondent asked whether any changes to the application forms in respect of the s138BA LACDT permission were expected as part of the proposals in CP5/24.

7.43 The PRA confirms that it has introduced new application and supplementary forms for s138BA permissions related to LACDT. This can be found on the PRA's website.[24]

7.44 One respondent asked the PRA to clarify whether the flexibility allowed in recent EIOPA guidance for Solvency and Financial Condition Report (SFCR) would apply to firms. The respondent asked the PRA to clarify whether that flexibility would apply to UK firms or if more specific PRA guidance will be provided before year-end reporting.

7.45 The PRA confirms that the proposals in CP5/24 and any changes included in this PS do not directly affect SFCR requirements. The PRA has no plans to issue further specific guidance ahead of year-end reporting.

Evidential requirements

7.46 Two respondents expressed concerns that the conditions and evidential requirements for a full s138BA permission for LACDT appear onerous and may exceed current requirements. One respondent provided an example, noting that paragraph 4.10 of the draft SF SoP expects firms to 'present a history of actual versus forecast profits' which is not required by existing CDR Article 207.

7.47 After considering these responses the PRA has decided to make changes to paragraph 4.14 of the SF SoP (paragraph 4.10 in the SoP consulted on in CP5/24). The points the PRA has listed constitute examples of the type of information firms may wish to provide the PRA to aid in its assessment of applications against the criteria currently set out in CDR A207. They are not additional requirements that firms must meet to obtain a permission and do not raise the evidential bar for firms.

Read across to internal model firms

7.48 Two respondents queried whether the LACDT proposals consulted on in proposal 2 of Chapter 8 of CP5/24 apply to IM firms.

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7.49 After considering the responses the PRA confirms that the LACDT proposals set out in CP5/24 apply solely to the calculation of LACDT in accordance with the SF.

7.50 One respondent asked the PRA to clarify whether the proposals in CP5/24 signal a hardening of the PRA's stance on firms' use of LACDT more generally and hence may have a read-across to IM firms.

7.51 As noted in paragraph 7.30 above the PRA does not consider that its proposed restatement of CDR Article 207 represents a hardening of its stance in respect of LACDT and notes that the conditions and criteria relevant for recognition of an increase in DTA within the LACDT calculation are substantively unchanged. As some respondents have noted LACDT may have a material impact on the size of a firm's SCR. It therefore remains an area of potential focus for the PRA when considering whether all material quantifiable risks to which a firm is exposed have been considered in its SCR.

7.52 Three respondents queried whether the s138BA permission process for LACDT consulted on in CP5/24 applies to IM firms (who calculate their LACDT using an IM approved by the PRA) when reporting their SCRs on a SF basis. They noted the PRA expects IM firms to report such figures within the SF.01 template, set out in SS15/16. One of those respondents requested clarification where an IM firm seeks to recognise an increase in DTA within its LACDT calculation as part of determining its SCR on a SF basis.

7.53 The PRA confirms that it does not intend to require an IM firm (where the calculation of LACDT is within the scope of an approved IM) to obtain a s138BA permission for LACDT solely for the purpose of calculating its SCR on a SF basis and reporting it to the PRA. Any firms with IM permission who wish to complete the SF.01 template assuming future taxable profits within the LACDT calculation should speak to their regular supervisory contact in the first instance to ensure that this reporting approach is reflected in their IM permission.

7.54 One respondent suggested that the PRA should confirm in the PS that the general regulatory standing and treatment of LACDT will remain unchanged as a result of the proposals set out in CP5/24. The respondent emphasised the importance of explicit clarification to ease concerns about the restated requirements creating additional obstacles for firms' recognition of LACDT.

7.55 The PRA confirms its LACDT proposals in CP5/24 and final policy in this PS restate the substance of Article 207 and are not intended to create additional obstacles for firms' recognition of LACDT.

Consistency with PRA's secondary competitiveness and growth objective

7.56 Two respondents were concerned that the default requirement for firms to apply for permission to use future profits in the LACDT calculation could negatively impact new firms,

as well as smaller or fast-growing insurers. They argued this requirement would undermine the PRA's secondary competitiveness and growth objective (SCGO).

7.57 After considering the responses the PRA has decided not to change the draft policy. The PRA notes that the requirements relating to LACDT remains consistent across all UK firms and that the substance of these requirements has not been changed by the proposed restatement in the PRA rulebook. The primary difference in the proposals set out in CP5/24 is the introduction of an MbC. The MbC offers several benefits to firms compared with the status quo which currently prevents firms from applying this measure unless they can satisfy the PRA that they meet the relevant criteria. It therefore provides firms with additional flexibility beyond the restatement of the existing CDR Article 207. The MbC is considered an addition to the current framework which furthers the SCGO on the basis that it is strictly permissive, designed to maintain an adequate level of policyholder protection standards, while streamlining discussions with eligible firms, minimizing unnecessary delays.

Additional regulatory burden and audit

7.58 Two respondents stated that additional regulatory requirements in this area are unnecessary and could introduce additional burdens and uncertainty. Both respondents emphasised that firms and auditors have extensive experience in producing robust evidence to support DTAs under existing accounting standards. One respondent also noted that the current system is consistent with the approach taken for all other components of the SCR.

7.59 After considering the responses the PRA has decided not to change the draft policy. The PRA notes that the proposals in CP5/24 are for the existing criteria and factors in CDR Article 207 to be restated without substantive change in paragraphs 4.12 and 4.13 of the SF SoP, and the transitional measure which applies until 30 December 2025. The PRA therefore considers that it is not introducing additional burdens and uncertainty for firms.

7.60 The PRA further notes that LACDT and any increase in DTA under the gross SCR scenario, is often outside the scope of external audit.[25] Given the subjective nature and potentially large benefit of the LACDT calculation the PRA considers that a permission process is an appropriate way to restate CDR Article 207.

7.61 The PRA notes that in some cases, for example where firms make use of transitional rule SCR-SF 6.5 or receive an MbC permission for calculating LACDT their recognition of future taxable profits within that calculation may fall within scope of the external audit of relevant elements of the SFCR. This is similar to the point on supervisory notifications discussed in paragraph 7.26.

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[25] For example, where a firm is defined as small for external audit purposes or an internal model is used (Rules 1.1 and 2.2 in the External Audit Part of the PRA Rulebook).

Technical points on the LACDT calculation

7.62 One respondent noted that CP5/24 introduced the concept of 'future profits' to replace 'expected profit in future premiums' but the scope of 'future profits' is unclear. The respondent requested the PRA provide a clear explanation of what is included within this scope.

7.63 After considering the response the PRA has decided not to make changes to the draft policy. The PRA considers that the term 'expected profits in future premium' referred to in CDR Article 260 is unrelated to future profits in the context of CDR Article 207. The PRA notes CDR Article 207 already uses the terminology future taxable profit and this is consistent with that used in the proposed new SF SoP (which restate aspects of CDR Articles 207(2a)(a) to (c), (2b), and (2c)). The PRA also confirms that there is no policy intention to change the scope of what is included in future taxable profits.

7.64 Two respondents expressed concerns on the clarity and consistency of the LACDT calculation methodology.

- One of those two respondents asked for more clarity on how the PRA interprets the term 'instantaneous' in relation to the SF LACDT. They also highlighted that the proposed rule prohibits firms from using an increase in DTA that would occur from a loss equal to the SCR pre-LACDT.
- The other respondent considered the PRA's proposed approach to LACDT was inconsistent with other post stress treatments (eg capital contributions of new business based on existing projections). They sought clarification on how LACDT is recognised with respect to other support such as offset of deferred tax liabilities or the carry back of losses, and how they would be treated, alongside LACDT supported by future, post stress event, profits. Additionally, they noted that the evidence to support management actions does not have a default PRA prohibition.

7.65 After considering the responses the PRA has decided not to make changes to the draft policy. The PRA notes that the proposed restatement does not change the policy intent as regards the calculation of LACDT and if firms have any outstanding questions regarding its implementation, they should speak to their regular supervisory contact in the first instance.

7.66 One respondent suggested that the criteria for demonstrating that probable FTP are available should explicitly state, that firms may assume implementation of future management actions, in line with the CDR.

7.67 The PRA confirms that in calculating LACDT firms are permitted to take account of future management actions provided those actions meet the provisions specified in Chapter 8 of the Technical Provisions Further Requirements part. These provisions substantively restate those currently applicable under CDR Article 23.

Calibration of MbC

7.68 Five respondents raised concerns about the proposed SCR coverage ratio threshold of 175%, and the suggested 5% cap in the contribution of an increase in deferred tax assets to the LACDT adjustment.

- Three of these respondents raised additional concerns about the efficiency and appropriateness of the suggested 5% cap and the 175% SCR coverage ratio threshold for the MbC proposal.
- One of these respondents asked the PRA to consider whether there is a true detriment to the PRA's objective in reducing the threshold and should consider making it more flexible or with a range.
- One of these respondents felt that, should solvency coverage fall, even marginally, below 175%, the default contribution of future profits/DTA to the LACDT would not be available. This would cause and additional drop in the firm's solvency ratio by increasing the SCR.

7.69 After considering the responses the PRA has decided not to change the draft policy relating to the MbC option for LACDT permission proposed in CP5/24. The PRA's final policy includes a 175% SCR coverage ratio threshold for MbC and the recognition of an increase in DTA within a firm's LACDT calculations will be capped at 5% of the instantaneous loss referred to in SCR-SF 6.4(1). The PRA clarifies that the intention of the MbC is to allow flexibility for firms to obtain a moderate benefit without the process of a full application. This is a benefit which is not available under the provisions in the CDR and therefore may allow a more efficient use of firms' resources.

7.70 The PRA also notes that where a firm using an MbC is concerned about a change the in credit which may be taken in the SCR for LACDT, then it may make seek a full s138BA permission that is not subject to the limits within the MbC.

7.71 Two respondents mentioned the need for the LACDT threshold to be tailored to the risk profile of individual firms. One respondent further claimed that setting the cap at a moderate but meaningful level for firms of c15% would advance the PRA's secondary competitiveness and growth objective.

7.72 After considering the responses the PRA has decided not to change the draft policy. Where the risk profile of a particular firm deviates from the risk profile associated with the SF a firm may apply for permission for a full or partial IM for the calculation of LACDT.

7.73 The PRA considers the MbC to advance the SCGO as it is a strictly permissive and additional option which is not available under the existing regime established by the CDR, which allows firms flexibility to obtain some benefit without a full application. The PRA notes that the proposed SCR ratio of 175% and the 5% cap have been established by considering risks arising to PRA objectives from an understatement of firms' SCR.

7.74 One respondent questioned how LACDT in the SCR calculation would be determined or whether LACDT is included in this calculation. In addition, if including LACDT is intended, it is not clear what allowance that calculation can make for DTA/future profits. The respondent noted that the reference to the post LACDT SCR cover ratio cell in the Quarterly Reporting Templates (QRT) suggests that LACDT is intended to be included.

7.75 The PRA notes that footnote 10 in paragraph 4.8 of the SF SoP confirms that the relevant SCR ratio to confirm eligibility for the MbC is the actual ratio after deducting LACDT as reported at R0620 C0010 of IR.23.01.01. During the transitional period, for firms meeting the relevant requirements, this ratio will reflect the effect of the transitional rule. 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.

7.76 One respondent also urged the PRA apply greater proportionality in respect of smaller firms and/or firms with an SCR near to 175%, specifically to consider aspects of the full application which can be provided in less detail for a Category 4 firm compared to a firm with a higher risk to the PRA's objectives.

7.77 After considering the response the PRA has decided not to change the draft policy. Firms that fall outside the limits for an MbC may make a full s138BA application and as stated in paragraph 4.21 of the SF SoP the PRA will consider the risk profile of the firm, and the sensitivity of the regulatory solvency position when reviewing any application.

7.78 One respondent highlighted that the 5% LACDT limit may not be valuable for strongly capitalised firms suggesting that the effort required to forecast profits for a marginal LACDT benefit may not be an efficient use of resources.

7.79 After considering the response the PRA has decided not to change the draft policy. As noted in paragraph 7.69 above the intention of the MbC proposal is to allow firms a moderate benefit without the burden of making a full application and is therefore expected to allow a more efficient use of firms' resources. Firms will have the option to apply for a full permission for LACDT if they wish to recognise LACDT benefits stemming from an increase in DTA in excess of the MbC limit.

7.80 One respondent requested clarification on what is meant by the 5% limit and whether it is 5% of the instantaneous loss, or of the potential tax credit available based upon the nominal tax rate in the UK or if itis based around the future profits forecast ie an effective tax rate of 5% applied to the total forecast future profits.

7.81 After considering the response the PRA has decided to make changes to paragraphs 4.8(a) and 4.10 of the SF SoP to clarify that:

- the 5% figure refers to the instantaneous loss before the application of LACDT described in paragraph 4.8(a) of the SF SoP. This means that the percentage is based on the gross SCR scenario before any adjustments are made for LACDT;
- the figure is expressed as a percentage of the instantaneous loss described in Rule 6.4(1) of the SCR-SF Part of the PRA Rulebook; and
- the cap of 5% represents the maximum amount of LACDT that a firm can recognise in its calculation, stemming from an increase in DTA. There is no restriction on a firm's recognition of LACDT which is supported by other means (ie 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.

8: Standard Formula Proposal 4: Definition of the term 'Ring-Fenced-Fund' (RFF)

Introduction

8.1 This chapter provides feedback to responses to Proposal 4 of Chapter 8 (Solvency Capital Requirement – Standard Formula) of CP5/24, in which the PRA proposed to make explicit the existing implied definition of ring-fenced fund ('RFF') by introducing the defined term 'ring-fenced fund' in the PRA Rulebook Glossary. It also confirms the PRA's final policy relating to that proposal, which will amend the Glossary Part of the PRA Rulebook (Appendix 4).

8.2 The PRA highlights that the (amended) definition of RFF in the Glossary Part of the PRA Rulebook within the final policy (Appendix 6) applies to all UK Solvency II firms, Lloyds, its members and managing agents. Namely, the new RFF definition is relevant for firms that calculate their SCRs using SF, Internal Model (IM), or Partial IM.

Changes to draft policy

8.3 The PRA has considered the feedback on the RFF definition proposed in CP5/24, described in more detail in paragraphs 8.5 to 8.28, and has decided to amend the definition to more accurately preserve the existing policy intent and to explicitly exclude MAPs from the definition.

8.4 As a consequential amendment, the PRA has revised the definition of 'restricted own funds' proposed in CP5/24, to remove a circularity between that definition and the revised RFF definition. Namely, the PRA has removed the reference to 'own funds items within a RFF or a MAP'.

Feedback to responses

8.5 The PRA received comments from five respondents in respect of its proposed RFF definition. This section sets out the PRA's feedback on those responses and its final decisions.

'Ring-fenced fund' (RFF) definition

8.6 In Proposal 4 of Chapter 8 of CP5/24, the PRA proposed to make explicit the existing implied definition of RFF by introducing a new defined term in the PRA Rulebook Glossary. The rationale for the proposal was to preserve the existing policy intent of relevant recitals in Solvency II Directive and CDR, which are supported by the **Guidelines on RFFs**, and

facilitate restatement of this concept from assimilated law within PRA rules.[26] As described in paragraph 8.3 above, the PRA has decided to amend the definition proposed in CP5/24 to more accurately preserve the existing policy intent and to explicitly exclude MAPs from the RFF definition.

Proposed RFF definition is unclear and could have unintended consequences

8.7 Four respondents expressed concerns that the RFF definition proposed in CP5/24 was unclear and did not preserve the existing policy intent. Three respondents commented that the proposed definition could result in unintended consequences by capturing a broader range of structures as RFFs than is currently the case, with one respondent highlighting that increasing the scope of RFFs would significantly increase the burden on insurers. Another respondent expressed concern about the prospect of the wording of the proposed definition being misinterpreted at some point in the future.

8.8 The PRA agrees with those responses on the proposed RFF definition. Accordingly, the PRA has decided to make amendments to the definition as set out in paragraph 8.3 above. The PRA re-iterates that its original intention in CP5/24 was to preserve the existing policy intent in relation to the scope of RFFs. The PRA considers the updated definition more accurately preserves the existing policy intent and provides additional clarity for firms when assessing if their arrangements should be treated as RFFs. The PRA expects the arrangements that meet the revised definition will be the same as those that firms currently identify as RFFs and treat as such for the purposes of Solvency II. The PRA considers that there is no additional burden on firms as a result of making the revised definition. Additionally, the PRA considers the revised definition is sufficiently robust so as to prevent misinterpretation by firms.

Proposed RFF definition deviates from Guidelines on RFFs

8.9 Two respondents commented that the proposed RFF definition does not incorporate key elements of the EU Guidelines on RFFs (‘RFF Guidelines’). One respondent noted that the guidelines provide a helpful definition of what constitutes a RFF and suggested the PRA more closely align its definition to the guidelines. Another respondent commented that by ignoring the guidelines, the proposed definition is insufficiently robust and queried how firms would be expected to comply with both the definition and the RFF Guidelines, given that the guidelines could not supersede the PRA Rulebook. The respondent also questioned the PRA’s expectation for firms to continue to comply with the guidelines given that they are addressed to supervisory authorities rather than firms.

8.10 The PRA agrees with those responses and acknowledges that incorporating some of the elements of the RFF Guidelines within the RFF definition will more accurately preserve

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[26] Directive 2009/138/EC recital (49), Directive 2014/51/EU recital (36), CDR recitals (37) to (39).

the existing policy intent. Therefore, the PRA has decided to make amendments to the RFF definition proposed in CP5/24 as set out in 8.3. In particular, the PRA has made amendments to incorporate the substance of Guideline 1, which is covered in more detail in paragraphs 8.11 and 8.12 below. The PRA has previously set its expectations as regards firms' continued compliance with the EU Guidelines.[27] While the RFF Guidelines originally published by EIOPA were addressed to supervisory authorities, it is clear that the content of the guidelines is directed to insurance firms.

Suggestion to align the RFF definition with RFF Guideline 1

8.11 Three respondents commented on the omission from the RFF definition proposed in CP5/24 of the explicit reference to the concept of ROFs, which they noted is part of the defining characteristics of an RFF in RFF Guideline 1.

8.12 The PRA agrees with the comments and acknowledges that including an explicit reference to ROFs as per RFF Guideline 1(a) within the RFF definition more accurately preserves the existing policy intent. Therefore, the PRA has decided to amend the RFF definition in response to the comments as outlined in paragraph 8.3.

Suggestion to incorporate elements of RFF Guidelines 2-4 within the RFF definition

8.13 Three respondents commented that the RFF definition proposed in CP5/24 should specify exclusions for particular arrangements that are generally outside the scope of RFFs, as set out in RFF Guideline 2. Two respondents commented that the content of RFF Guideline 2 provides valuable clarification and expressed concern that not including that substance within the RFF definition could lead to some arrangements not currently treated as RFFs being captured by the definition. One respondent also noted that RFF Guidelines 3 and 4 contain examples of arrangements that generally give rise to RFFs.

8.14 After considering the responses, the PRA has decided not to incorporate elements of RFF Guidelines 2, 3 or 4 within the revised RFF definition. The PRA considers including examples of arrangements that generally do or do not constitute an RFF when setting the scope for the RFF definition is not appropriate. Whether an arrangement within a firm is captured by the RFF definition depends on the circumstances: including its structure, contractual terms, and any relevant legal and regulatory requirements. The PRA has decided to explicitly exclude MAPs from the RFF definition due the parallel application of the relevant Solvency II rules to both RFFs and MAPs, as covered in more detail in paragraphs 8.21 to 8.24. This is consistent with the existing Solvency II policy on RFFs and any change to explicitly exclude other general types of arrangements from the definition would result in a change in policy intent.

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27 The PRA set its expectations regarding the **Guidelines on ring-fenced funds** in line with the approach described in paragraph 1.27.

8.15 As noted in paragraph 8.10 above, the PRA has previously set its expectations as regards firms' continued compliance with the RFF Guidelines. Therefore, Guidelines 2, 3 and 4 are still relevant for firms to consider when identifying whether arrangements within their businesses constitute RFFs. As noted above in paragraph 8.14, the PRA considers that the revised RFF definition accurately preserves the existing policy intent and expects no change in the scope of arrangements that firms treat as RFFs.

Proposed RFF definition should explicitly exclude collateral and reinsurance arrangements

8.16 Four respondents expressed concern that the proposed RFF definition would result in collateral arrangements being treated as RFFs. Two respondents further commented on the negative consequences on firms if collateral arrangements were required to be treated as RFFs, namely the loss of SCR diversification and additional targeted reporting requirements. Two respondents suggested the PRA amend the RFF definition to explicitly exclude collateral arrangements. Two respondents expressed similar concerns that the proposed definition would result in reinsurance arrangements being treated as RFFs. In addition, the respondents suggested that the RFF definition explicitly exclude reinsurance arrangements, citing the reference to conventional reinsurance business within RFF Guideline 2 (on 'Arrangements and products that are generally outside the scope of ring-fenced funds').

8.17 After considering the responses, the PRA has decided not to change the RFF definition proposed in CP5/24 to definitively exclude collateral or reinsurance arrangements. Whilst the PRA does not expect those arrangements to generally constitute RFFs, it also considers that to explicitly exclude those arrangements from the RFF definition would be inconsistent with the RFF Guidelines and alter the existing policy intent. The PRA reminds firms of the rationale set out when the RFF Guidelines were first published:

'… it is not possible to generalise as to whether a ring-fenced fund would normally arise. There are certain collateral provisions for example, which take the form of a legally binding agreement, charge, or trust for the benefit of specified policyholders, and therefore in that case a restriction on the assets is likely to be created. Thus, when identifying the nature of any restrictions affecting assets and own funds within their business in accordance with the Guidelines, undertakings will need to consider the particular nature of the life management fund or collateral arrangement.'[28]

8.18 The PRA agrees that RFF Guideline 2(d) sets an expectation that conventional reinsurance business constitutes an arrangement that is generally outside the scope of

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[28] Final Report on Public Consultation No. 14/036 on Guidelines on ring-fenced funds: **EIOPA Final Report on Public Consultation No/ 14/036 on Guidelines on group solvency** .

RFFs. However, it is not possible to say with certainty that will always be the case for all reinsurance business, as Guideline 2(d) includes the following caveat:

'conventional reinsurance business provided that individual contracts do not give rise to restrictions on the assets of the undertakings'.

8.19 In both cases, RFF Guideline 2 does not provide a blanket exemption excluding all collateral arrangements and all conventional reinsurance business from the scope of RFFs in the Solvency II framework. Rather, the outcome as regards their treatment as RFFs depends on the terms and conditions of individual collateral arrangements and reinsurance contracts and any applicable regulatory requirements.

8.20 Therefore, the PRA considers that it would be inappropriate to explicitly exclude collateral arrangements and reinsurance business within the RFF definition. The PRA further considers that in preserving the existing policy intent through the amendments to the RFF definition set out in paragraph 8.3, there should be no detrimental impact on firms arising from the inclusion of the amended definition within the PRA Rulebook Glossary.

Proposed RFF definition should explicitly exclude MAPs

8.21 Two respondents expressed concerns that the RFF definition proposed in CP5/24 would result in MAPs needing to be treated as RFFs. One respondent suggested the PRA incorporate a clause in the definition to state that a RFF is not a MAP and vice versa.

8.22 The PRA acknowledges respondents' concerns that the RFF definition proposed in CP5/24 could capture MAPs within its scope. After considering the responses, the PRA has decided to amend the RFF definition to exclude MAPs as set out in paragraph 8.3. Whilst MAPs and RFFs have some similarities, they are different concepts in Solvency II. Whether or not a MAP (in whole or in part) is a RFF depends on the circumstances (as described in paragraph 8.14 above). In any case, the same adjustments to the calculation of Own Funds and SF SCR apply in parallel to both MAPs and RFFs (CDR Articles 81(1), 216(1), and 217, which the PRA proposed to restate within the PRA Rulebook in CP5/24). As such, given that a firm with a MAP will in any case be required to make the appropriate adjustments to the calculation of Own Funds and SF SCR, there is no need for the RFF definition to capture a MAP in this context.

8.23 The PRA considers that this amendment does not represent a change in policy intent. For the avoidance of doubt, the requirements on firms with a MAP are unchanged by this amendment to the RFF definition. That is, a firm with a MAP will still have to make relevant adjustments to the calculation of Own Funds and SF SCR, as required by the PRA's restated versions of the CDR provisions listed in the previous paragraph.

8.24 The PRA also considers that it is not appropriate to specify that an RFF is not a MAP within the definition of RFF (the 'vice versa' part of the comment from a respondent). A MAP

is a specific concept within Solvency II with defining characteristics distinct from a RFF. For an arrangement to be treated as a MAP, a firm must have a MA permission from the PRA. No such permission is required for an arrangement to be treated as a RFF. Therefore, there is no need for the definition of RFF to explicitly state that RFFs do not fall within the scope of MAPs.

Proposed RFF definition contradicts the PRA's secondary objective on competitiveness and growth

8.25 One respondent commented that the possibility of expanding the scope of arrangements captured under the RFF definition proposed in CP5/24 would represent a very poor outcome for many insurers and would run contrary to the PRA's secondary objective on competitiveness and economic growth ('SCGO').

8.26 The PRA considers that the revised definition more accurately preserves the existing policy intent and therefore does not negatively impact the SCGO.

Suggestion for the PRA to publish a supervisory statement on RFFs

8.27 One respondent asked the PRA to consider issuing a new supervisory statement on RFFs to assist firms in the identification of RFFs and the assessment of their materiality. The respondent commented that the proposed document should also address external branches, Funds at Lloyds, and how the 'going concern basis' should be interpreted by firms. Another respondent asked the PRA to incorporate some of the RFF Guidelines into its policy material.

8.28 After reviewing the responses, the PRA has decided not to change the draft policy. The PRA may consider the respondents' suggestions for a supervisory statement on RFFs as part of future developments to the UK Solvency II framework.

9: Systems of governance

Introduction

9.1 This chapter provides feedback to responses relating to the proposals in Chapter 10 (Systems of governance) of CP5/24. It also confirms the PRA's final policy, regarding amendments to the Conditions Governing Business (CGB), Group Supervision, and Third Country Branches Parts of the PRA Rulebook (Appendices 4 and 6).

9.2 In Chapter 10 of CP5/24 (Systems of governance), the PRA proposed to restate in the PRA Rulebook, with the relevant modifications described in that chapter of the CP, but no substantive changes to the underlying policy, Articles 2, 304(1)(c) and 306, along with Articles 258-275 from CDR Title I, Chapter IX. The content of these provisions covers systems of governance, risk management system, remuneration, the use of expert judgement, and the appropriate management of any conflicts of interest that may arise within insurance firms and groups.

Changes to draft policy

9.3 The PRA has made a few minor drafting modifications to the new rules to bring these more closely in line with their equivalent CDR provisions, but has made no changes to the substance of the policy it consulted on in Chapter 10 of CP5/24.

Feedback to responses

9.4 The PRA received two responses to Chapter 10 of CP5/24. Details of the responses and the PRA's corresponding feedback has been grouped as follows.

Lack of precision or clarity in drafting of the new rules

9.5 The PRA proposed to restate the provisions from Articles 2, 258-275, 304(1)(c) and 306 of the CDR in its PRA Rulebook with some minor changes as described in paragraphs 10.8 - 10.15 of the CP. When transferring these Articles into the PRA Rulebook, the PRA proposed also to make some non-substantive changes to the text for consistency with UK English and PRA style, as well as minor administrative changes such as reordering.

9.6 One respondent sought clarification for the meaning of the term 'functions' in the new proposed Chapter 4A in the Conditions Governing Business (CGB) Part of the PRA Rulebook.

9.7 The PRA notes that this term is defined in the PRA Glossary. The PRA considers that it will encompass all the 'key functions' as defined in the Glossary, as each key function defined

there is itself said to be a 'function'. CGB 2.2(3) has also been amended slightly to make this clearer.

9.8 One respondent suggested that there was a lack of clarity in the expression 'outsourcing of insurance or reinsurance activities' and sought to give this a narrow meaning by reference only to the activities of granting a binding authority for underwriting insurance policies, or for settling claims as an agent of the insurer. The respondent also raised that the italicised terms ‘outsource’, ‘outsources’, and ‘outsourced’ were not defined in the PRA Rulebook.

9.9 The PRA considers that the term 'activity' in the 'outsourcing' definition in the PRA Rulebook has a broader natural meaning than that suggested by this respondent. After considering this response, the PRA has therefore not changed its Glossary definition of 'outsourcing'.

9.10 The PRA notes that, while the terms 'outsource', ‘outsources’, and ‘outsourced’ are not defined directly in the PRA Rulebook, the term ‘outsourcing’ is defined in the Glossary. **Interpretation | Prudential Regulation Authority Handbook & Rulebook** sets out that every provision in the PRA Rulebook must be interpreted in the light of its purpose. The PRA considers therefore that the terms ‘outsource’, ‘outsources’, and ‘outsourced’ can be interpreted appropriately in the context of the Glossary definition of ‘outsourcing’.

9.11 One respondent queried whether the references to the PRA in CGB 7.7 should be extended to also cover the provision by outsourced service providers of cooperation and access for other relevant supervisory authorities, similar to the current requirements in CGB 7.4.

9.12 After considering this response, the PRA has decided not to change the draft policy. The PRA is aware that the exclusion in the restated CGB 7.7 of a reference to other relevant supervisory authorities is different from the formulation in some existing PRA rules for insurers. However, the PRA does not consider that this will lead to any incompatibility, or contradictions, in its Rulebook.

9.13 One respondent noted some overlap between some of the proposed new rules and the existing CGB rules.

9.14 After considering this response, the PRA has decided not to amend the rules proposed in the CP in response to this comment. The PRA notes that the rules highlighted by this respondent (ie CGB 5.1(3) / CGB 5.2(4) and CGB 7.4 / CGB 7.7) are not identical but rather make complementary provisions for insurers’ systems of governance. These complementary provisions were present in the existing regulatory framework, and the proposals in CP5/24 simply restate them in PRA rules. The PRA considers that as there are no obvious inconsistencies, this should not present any material problems for firms.

9.15 One respondent suggested that Article 267(4) of the CDR would only apply where alternative valuation approaches are applied for valuing assets and liabilities, and requested that the text of CGB 11D.4(2) should be amended accordingly.

9.16 The PRA does not agree with this interpretation of Article 267(4) and considers that its corresponding rule CGB 11D.4 would remain relevant, irrespective of the valuation approach applied by the insurer. Accordingly, after considering this response, the PRA has decided not to make this requested amendment to the text of this rule.

9.17 One respondent identified some instances where the proposed new CGB rules did not precisely mirror the wording of the corresponding CDR Articles. After considering this response, the PRA has decided to modify slightly CGB 11B.1(2)(g), 11B.3(5), and 11D.4(2) to bring the wording of these rules more closely in line with the text of their corresponding CDR Articles.

Lack of precision or clarity in the text of the CDR Article that is being restated in PRA rules

9.18 One respondent suggested that there were instances where some of the CDR Articles lacked precision or clarity, had poor grammar, seemed to have some redundant text, or had some other perceived deficiency in their wording.

9.19 The PRA notes that the same respondent also commented that corrections of inconsistencies or clarifications of the CDR text may affect firms who have hitherto made different interpretations which would no longer be valid after those clarifications.

9.20 After considering the respondent’s comments, the PRA has not made any changes to the wording of its rules in response to these comments, other than the minor changes described at paragraphs 9.7 to 9.17 above, to avoid potential unintended consequences of making additional changes.

10: Public Disclosure

Introduction

10.1 This chapter provides feedback to responses relating to the proposals in Chapter 12 (Public disclosure) of CP5/24. It also confirms the PRA's final policy, as follows:

- amendments to the Reporting Part of the PRA Rulebook (Appendix 5);
- updated SoP – Solvency II regulatory reporting waivers (see Appendix 14);
- updated SoP – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU (see Appendix 15); and
- updated SS40/15 – Solvency II: reporting and public disclosure options provided to supervisory authorities (Appendix 16).

10.2 In Chapter 12 of CP5/24, the PRA made proposals to restate the Public Disclosure requirements from the CDR to the Reporting Part of the PRA Rulebook and PRA policy material. Additionally, to restate the EIOPA Guidelines on reporting and disclosure into SS40/15.

Changes to draft policy

10.3 Following consideration of respondents' comments, the PRA has made changes to the draft policy proposed in Chapter 12 of CP5/24. A summary of the changes is set out below:

- correction of rule references in the Reporting Part of the PRA Rulebook;
- revised terms 'third country branch' and 'third country' used in section 12 of SS40/15;
- correction of typographical errors in SS40/15; and
- correction of template codes in the Solvency II regulatory reporting waivers SoP.

Feedback to responses

10.4 The PRA received three responses to Chapter 12 of CP5/24. Details of the responses and the PRA's feedback has been grouped as follows.

Proposal 1: Restatement of Public Disclosure requirements

10.5 Two respondents identified minor rule referencing errors, and updates needed, in the Reporting Part of the PRA Rulebook, these relate to rules 3.3(5), 3.6, article 4(1)(a) and 5(1)(b) in Reporting 3A, 5.1A as well as, 2.5B(10), the latter of which did not form part of the proposals in CP5/24.

10.6 The PRA agrees with these observations and has decided to make changes to correct those references in the Reporting Part of the PRA Rulebook.

10.7 One respondent suggested that the PRA's consequential amendments to update the CDR references in the External Audit Part of the Rulebook added complexity due to the increase in the number of cross references and requested the PRA reconsider this.

10.8 After considering the response, the PRA has decided not to change the draft policy in relation to the External Audit Part of the PRA Rulebook. The PRA considers that the itemisation of cross references provides firms with the explicit rule requirement without adding additional burden to firms. The PRA considers this to be clearer overall.

10.9 The same respondent questioned the ordering of certain sections added in the Reporting Part of the PRA Rulebook and proposed an alternative, and further requested that the remaining sections in this Part be re-reviewed by the PRA and reordered accordingly.

10.10 After considering the response, the PRA has decided not to change the ordering of the Reporting Part of the PRA Rulebook. The PRA recognises that the ordering of the Rulebook is a matter of judgement. However, the PRA considers that the order consulted on in CP5/24 remains clear.

10.11 The third respondent identified incorrect template codes in SoP: Solvency II regulatory reporting waivers as published in PS3/24.

10.12 The PRA notes that this SoP was already corrected on 4 June 2024.

Proposal 2: Restatement and consolidation of existing expectations into SS40/15

10.13 One respondent requested further clarity in the interpretation of the terms 'third country branch' and 'third country' in paragraph 12.19 relating to tiering of own funds.

10.14 After considering this request, the PRA agrees that the use of 'third country branch' can be confusing and has returned to using the original term 'third country branch insurance or reinsurance undertaking'; additionally, the second clause of the paragraph has been amended to remove the term 'third country' so as to make the expectation clearer.

10.15 The same respondent requested the PRA provides further guidance on its proposal in paragraph 1.8 of SS40/15 relating to omission of information from the SFCR on the grounds of materiality, arguing that the omission of information may prove undesirable and that requiring a firm to state what information has been omitted would be helpful.

10.16 After considering the response, the PRA has decided not to change the draft policy as requested. The PRA considers that such an expectation could be a useful addition to the disclosure requirements. However, this would constitute a policy change and would go

beyond the scope of CP5/24 to restate assimilated law. This could, however, be considered as part of future policy development.

10.17 The same respondent supported the inclusion of disclosure of intra group transactions as set out in SS40/15 but requested the PRA provide further guidance on the calculation of certain arrangements to avoid double counting risks.

10.18 After considering the response, the PRA has decided not to change the draft policy to provide further guidance on the calculation of intragroup transactions required to be disclosed. The PRA considers that expanding on the guidance already provided would be going beyond the scope of the restatement exercise in CP5/24, but may consider this as part of future policy development.

Additional Feedback

10.19 The PRA received additional feedback from all three respondents that did not relate to the public disclosure proposals consulted on in CP5/24.

10.20 One of the respondents requested the PRA provide approximate timescales on the waiver application approval process ahead of the 31 December policy implementation date and confirm whether there would be any changes to waiver application forms.

10.21 In response to the above request, the PRA refers readers instead to paragraphs 1.12 and 1.52 and 1.53 of Chapter 1 (Overview) of this PS for further information about waiver applications.

10.22 The remaining comments received from the three respondents related to:

- the drafting of rule 3.2 in the Reporting Part of the PRA Rulebook that was not consulted on as part of CP5/24;
- a request for the PRA to reconsider the existing terminology referring to both ‘insurance contracts’ and ‘reinsurance contracts’ in section nine of SS40/15 and instead use only ‘insurance contracts’ and highlighted incorrect grammar in the wording;
- a request for the PRA to simplify underwriting performance SFCR requirements; and
- a request for the PRA to review final rules relating to reporting templates as part of PS3/24.

10.23 After considering the responses the PRA:

- has decided not to change the draft policy relating to the drafting of rule 3.2 of the Reporting Part of the PRA Rulebook. The PRA was not convinced that the drafting of the rule is grammatically incorrect. Additionally, this rule is beyond the scope of proposed rules that were consulted on in CP5/24;

- has decided not to change the draft policy in relation to section nine of SS40/15 where it uses the terminology ‘reinsurance contracts’ as the PRA did not consult on changing the substance of the text;
- has decided to make changes to correct the grammar in section nine of SS40/15 to improve readability; and
- will reflect on the stakeholder comments regarding simplification of SFCR reporting, noting that the SFCR review is beyond the scope of CP5/24.

11: Insurance Special Purpose Vehicles

Introduction

11.1 This chapter provides feedback to responses relating to the proposals in Chapter 13 (Insurance Special Purpose Vehicles) of CP5/24. It also confirms the PRA's final policy, as follows:

- amendments to the Insurance Special Purpose Vehicles Part of the PRA Rulebook (Appendix 6); and
- updated SS8/17 – Authorisation and supervision of UK insurance special purpose vehicles (Appendix 17).

11.2 In Chapter 13 of CP5/24, the PRA set out proposals to restate regulations relating to UK Insurance Special Purpose Vehicles (ISPVs) from the CDR and CIR to the PRA Rulebook and policy material.

11.3 In addition to the restatements, the PRA proposed amendments to the fit and proper requirements for shareholders or members with a qualifying holding. The PRA proposed to:

- restate the condition in CDR Article 318(e) requiring qualifying holders to be fit and proper in accordance with CDR Article 323 in the ISPV Part of the PRA Rulebook, and introduce an amendment to reflect an ongoing requirement that the UK ISPV's assessment does not indicate that shareholders or members with a qualifying holding do not meet those criteria, as set out in 2C.5(1) to 2C.5(4);
- restate the conditions in CDR Article 323(1) in the ISPV Part of the PRA Rulebook as a requirement on UK ISPVs to take reasonable steps to keep under assessment whether the shareholders or members with a qualifying holding in the ISPV are fit and proper; and
- add a rule to the ISPV Part of the PRA Rulebook to require UK ISPVs to notify the PRA as soon as it becomes aware that any shareholder or member having a qualifying holding may not be fit and proper.

Changes to draft policy

11.4 Following consideration of the respondent's comments, the PRA has made changes to the draft policy proposed in Chapter 13 of CP5/24. A summary of the changes made to the Insurance Special Purpose Vehicles (ISPV) Part of the PRA Rulebook is set out below. These do not constitute changes to policy intent:

- Rule 2.4 in the ISPV Part, related to the solvency requirements a UK ISPV must be able to demonstrate, has been amended to clarify how the requirement intersects with and differs from reporting requirements stipulated in Chapter 5A;
- Rule 2.5(2), has been amended to clarify the calculation of basic own funds in respect of the requirements on the treatment of payments relating to existing contracts of (re)insurance contracts that are expected to be received in the future by the UK ISPV from an undertaking which is not based in the UK;
- Rule 2A.1(1) in the ISPV Part, has been amended to clarify the obligatory nature regarding the condition under which a UK ISPV assumes risks;
- Rules 4.5 and 4.7 in the ISPV Part have been amended to clarify the PRA's policy intent that a UK Multi-arrangement Insurance Special Purpose Vehicle (MISPV) must be able to demonstrate compliance with the relevant requirements on request of the PRA;
- Rule 5A.7(6) in the ISPV Part has been amended to clarify the PRA's policy intent for UK ISPVs with regards to the fully funded requirement;
- the definition of aggregate maximum risk exposure (AMRE), as defined in Annex A (Glossary), has been amended to reflect that UK ISPVs can accept risks from undertakings other than UK Solvency II firms; and
- minor additional clarifications and grammatical changes have been made to improve clarity and enhance readability.

11.5 The PRA believes that these amendments are of low materiality and will have no impact on firms beyond those impacts covered in the draft policy set out in CP5/24.

Feedback to responses

11.6 The PRA received one response to Chapter 13 of CP5/24.

Duplication of transferred rules

11.7 The PRA proposed the restatement of CDR Articles 326(3) and 325(2) in Rules 2.4 and 5A.2, respectively, in the ISPV Part of the PRA Rulebook.

11.8 The respondent suggested that the purpose of Rule 2.4 is unclear as its elements appear to be covered in Chapter 5A: Supervisory Reporting, and that there is potential duplication, with Rule 2.4 and Chapter 5A having the same requirement.

11.9 The PRA acknowledges that there is some overlap between Rule 2.4 and the reporting rules covered in Chapter 5A, but not to the extent that Rule 2.4 is superfluous. In particular, Rule 2.4 states that a UK ISPV must be able to demonstrate that it satisfies requirements 'if requested to do so'. Therefore, Rule 2.4 requires a UK ISPV to demonstrate that it satisfies requirements not just via reporting, but at any time if requested to do so. After considering the

response, the PRA has decided to amend the drafting of Rule 2.4 to clarify how the requirement intersects and differs from those in Chapter 5A.

General conditions on UK ISPVs

11.10 The PRA proposed to restate with some amendments CDR Article 318(a) in 2A.1 of the Insurance Special Purpose Vehicles Part of the PRA Rulebook. The proposed amendments are to clarify the general conditions (1)-(3) which a UK ISPV must satisfy at all times.

- Rule 2A.1(1) specifies that a UK ISPV assumes risks from an undertaking through reinsurance contracts or assumes insurance risks through similar arrangements.
- Rule 2A.1(3) specifies that a UK ISPV has not determined, on the basis of an assessment carried out in accordance with Rule 2C.5, that any shareholders or members with a qualifying holding in the UK ISPV do not satisfy the criteria set out in Rule 2C.5(1) to 2C.5(4) (fit and proper requirements).

11.11 The respondent suggested that the assumption of risks as described in Rule 2A.1(1) is definitional (ie describes the definition of a UK ISPV) rather than conditional (ie an obligation on the UK ISPV), making it inconsistent with the Regulatory Activities Order definition of insurance risk transformation. In addition, the respondent noted that, as a consequence of insurance risk transformation (and related activities) being the only activity an ISPV may carry on, the condition appears to be redundant.

11.12 The PRA agrees that the proposed drafting of Rule 2A.1(1), which lists general conditions that a UK ISPV must satisfy, may be interpreted as definitional rather than conditional but notes that the policy is for Rule 2A.1(1) to be an enforceable rule, irrespective of the rule being interpreted as definitional. After considering the response, the PRA has decided to make a minor drafting adjustment to Rule 2A.1(1) to bring the requirement more in line with the definition by clarifying that the provision in Rule 2A.1(1) is an obligation on a UK ISPV.

11.13 The respondent also suggested that Rule 2A.1(3) wrongly applies the test for those running the undertaking to those with qualifying holdings, and that since Rules 2C.1-5 cover those, Rule 2A.1(3) could be deleted as superfluous. The respondent further commented that Rule 2A.1(3) does not reflect the original text as it conflates CDR Article 318(d) and (e).

11.14 After considering the response, the PRA has decided not to change the draft policy. The PRA does not agree that Rule 2A.1(3) is superfluous. Rule 2C.5 only requires that ISPVs carry out an assessment, whereas Rule 2.A.1(3) places a requirement on the ISPV to ensure that the outcome of that assessment is positive, and these are distinct requirements. Regarding the reference to CDR Article 318(d), the PRA would further like to clarify that this

provision was transferred to SS8/17 rather than into the PRA Rulebook as it relates to the UK ISPV authorisation process.

Fully funded requirement

11.15 The PRA proposed to restate CIR Article 14 in Rule 5A.7 of the ISPV Part of the PRA Rulebook. Rule 5A.7 specifies the qualitative information a UK ISPV must submit annually to the PRA. Rule 5A.7(6) requires that if the UK ISPV has not continuously complied with the requirement to be fully funded during the reporting period, the UK ISPV must report any relevant information on that non-compliance and its rectification according to Rules 2.2 to 2.5.

11.16 The respondent suggested that, in reference to 'rectification according to 2.2 to 2.5', Rule 5A.7(6) goes beyond restatement as the CIR text does not require rectification, merely a continuous requirement for full funding. The respondent suggested that the PRA could consider adding a requirement to rectify immediately any breach.

11.17 The PRA notes that as the fully funded requirement applies 'at all times' (as stated in Rule 2.1), failure to rectify non-compliance would mean the firm is in breach of this rule. After considering the response, the PRA has decided to change the draft policy by amending the language in Rule 5A.7(6) to clarify the policy intent, that the use of 'according to' means 'in order to comply with' in this context.

Multi-arrangement special purpose vehicles (MISPVs)

11.18 The PRA proposed to restate, with some amendments, CIR Articles 7(1) and 7(3) in Rules 4.5 and 4.7, respectively, of the ISPV Part of the PRA Rulebook. These rules relate to the conditions of authorisation for MISPVs. The proposed amendments are to clarify the ongoing nature of expectations.

11.19 The respondent suggested that the use of 'must be able to demonstrate' in Rules 4.5 and 4.7 constitutes a change in the rule from being applicable only at the point of authorisation as in the CIR, to being an ongoing requirement. The respondent commented that if the policy intention is for firms to be able to demonstrate compliance on an ongoing basis, the PRA should add 'on request from the PRA'.

11.20 The PRA does not agree that the proposed wording results in a rule change, as under assimilated EU law, CIR Articles 7(1) and 7(3) are ongoing requirements and remain as such in Rules 4.5 and 4.7. However, after considering the response, the PRA has decided to amend the wording of the draft policy and has incorporated 'on request' in Rules 4.5 and 4.7 to clarify the policy intent.

11.21 The respondent further noted that Rule 4.7 refers to 'the solvency requirement' without specifying what that is. The respondent suggested that if this term refers to Rules 2.2 to 2.5,

then as those are already set out earlier in the rule, the words after 'contractual arrangement' say the same thing and should be removed.

11.22 The PRA does not agree that the words at the end of Rule 4.7 say the same thing as they refer to the supporting evidence that a UK ISPV meets the conditions in Rules 2.2 to 2.5, which allows the PRA to determine whether the MISPV complies with these solvency requirements. After considering the response, the PRA has decided not to make changes to rule 4.7 beyond that described in paragraph 11.4.

Definitions in relation to Society of Lloyd's

11.23 The respondent commented that the definition of 'special purpose vehicle' in the Glossary refers to Lloyds as though it were an insurer, and suggested that since all insurance business at Lloyd's is written by members, which is a defined term, the PRA should replace this with 'members'.

11.24 The PRA does not agree with this comment. The reference to Lloyds as a whole in this definition is intended to ensure that the definition reflects the current definition of a special purpose vehicle in CDR Article 1 sub-section 58E. The definition in Article 1 sub-section 58E refers to the assumption of risk from 'insurance or reinsurance undertakings', being entities that require authorisation under Article 14 of the Solvency II Directive if the UK were a member state of the EU. 'Insurance or reinsurance undertakings' includes 'the association of underwriters known as Lloyd's'. After considering the response, the PRA has decided not to change the draft policy definition of 'special purpose vehicle'.

Definition of aggregate maximum risk exposure (AMRE)

11.25 The PRA proposed to define AMRE in the Annex A (Glossary) of the Insurance Special Purpose Vehicles Part of the PRA Rulebook. This defined AMRE as the sum of the maximum payments, including expenses that the special purpose vehicle may incur, excluding those that meet three criteria. The third criterion is that the undertaking which has transferred risks to the special purpose vehicle does not include the expense as an amount recoverable from that special purpose vehicle (in accordance with Rule 25 in the Technical Provisions – Further Requirements Part).

11.26 The PRA has decided to remove the third criteria from the definition of AMRE as it is not appropriate in the context of the UK's ISPV regime, where a UK ISPV can accept risks from any undertaking, not just those subject to the Technical Provisions requirements.

Comments out of scope of CP5/24

11.27 The respondent provided feedback in relation to items which were beyond the scope of CP5/24. Such feedback included funded requirements in relation to MISPVs, re-ordering parts of the PRA Rulebook, perpetuating the language translations issues in the English version of the CDR, perceived duplication in requirements within the PRA Rulebook and

changing the definition of aggregate maximum risk exposure (AMRE). The PRA has noted this feedback and has considered and included any proposed changes in CP15/24 – Proposed changes to the UK Insurance Special Purpose Vehicle (UK ISPV) regulatory framework.

12: Insurance Groups

Introduction

12.1 This chapter provides feedback to responses relating to the proposals in Chapter 14 (Insurance Groups) of CP5/24. It also confirms the PRA's final policy, as follows:

- amendments to the Glossary and Group Supervision Part of the PRA Rulebook (Appendix 6);
- amendments to SoP – The PRA's approach to insurance group supervision (Appendix 19); and
- amendments to SS9/15 – Solvency II: group supervision (Appendix 20).

12.2 In CP5/24 the PRA proposed to restate the remaining group supervision regulations from the Solvency II CDR in the Group Supervision Part of the PRA Rulebook.

Changes to draft policy

12.3 Following consideration of respondents' comments, the PRA has updated the definition of group specific parameters for clarity, and made small grammatical and drafting changes to the final rulebook and policy material.

12.4 The PRA has updated the Group Supervision part of the PRA rulebook, SS9/15, SoP – the PRA's approach to insurance group supervision and SS22/15 to reflect HMG's overseas insurance regime which is described in Chapter 1 (Overview) of this PS.

12.5 The PRA has also made minor referencing updates within the Group Supervision rulebook, SS9/15, SoP – PRA's approach to group supervision and SS22/15 to replace references to equivalence with HMG's overseas insurance regime.

Feedback to responses

12.6 The PRA received three responses to Chapter 14 of CP5/24, one of which was material. The PRA's feedback to the material response is below.

Definitions

12.7 The PRA proposed to restate CDR Article 338 'Method 1 Group-Specific Parameters' into the Group Supervision Part of the PRA Rulebook.

12.8 One respondent suggested the definition of a GSP could be simplified to improve clarity while the defined term 'Solvency II implementing measures' could be updated to reflect the UK's departure from the EEA.

12.9 Having considered the response, the PRA has made a change to the definition of GSP, as explained in paragraphs 6.29-6.30. The PRA notes that the reference to Solvency II EEA implementing measures refers only to the implementation of the Solvency II Directive in Gibraltar. Accordingly, the PRA considers that the phrase ‘Solvency II EEA implementing measures’ remains appropriate.

13: Other proposals from CP5/24

Introduction

13.1 As mentioned in paragraph 1.46 of this PS, the PRA received no responses to a number of proposals in CP5/24. The following proposals received no responses:

- Chapter 3: Valuation of assets and liabilities
- Chapter 4: Technical Provisions: Risk-free interest rate and Volatility adjustment
- Chapter 8: Standard Formula Proposal 3: Conversion of EUR-denominated amounts to GBP
- Chapter 9: Investments in securitisation positions
- Chapter 11: Extension of the recovery period
- Chapter 15: Consequential amendments

13.2 This chapter finalises the rules and policy material in respect of these proposals as follows:

- Amendments to parts of the Valuation, Technical Provisions, Transitional Measures, Investments, Undertakings in Difficulty, Group Supervision and Glossary Parts of the PRA Rulebook (see appendix 6);
- Parts of the new PRA Rulebook Part: Technical Provisions – Further Requirements (see appendix 6);
- Amendments to existing SoP – Permissions for transitional measures on technical provisions and risk-free interest rates (the transitional measures SoP) (Appendix 22), SoP – The PRA's approach to the publication of Solvency II technical information (the TI SoP) (Appendix 9), SoP – Solvency II: Capital add-ons (the CAO SoP) (Appendix 23);
- New SoP – Volatility Adjustment Permissions (Appendix 21), SoP – The PRA's approach to the permissible recovery period for insurers to restore full cover for their SCR (the recovery period SoP) (Appendix 24) and parts of SoP– Standard Formula (SF) – Solvency II: The PRA's approach to Standard Formula adaptations (the SF SoP) (Appendix 13); and
- Delete SS15/15 – Solvency II: Approvals (Appendix 25) and SS23/15 – Solvency II: supervisory approval for the volatility adjustment (Appendix 26).

Changes to draft policy

13.3 The PRA has made minor amendments as follows:

- In respect of the finalisation of the rules and policy material from Chapter 4 of CP5/24, the PRA has made minor changes to the draft policy resulting from the subsequent publication of PS10/24 – Review of Solvency II: Reform of the Matching Adjustment. In that publication, the PRA made minor consequential amendments to:
    - The Technical Provisions and Glossary Parts of the PRA Rulebook; and
    - SoP – The PRA's approach to the publication of Solvency II technical information.
- Those amendments updated references to legislation relating to the PRA's production of Solvency II technical information, which changed on 30 June 2024. The PRA has also made minor changes to Technical Provisions Part of the PRA Rulebook to correct grammatical errors. These updates are included in the PRA's final policy along with the changes proposed in CP5/24.
- In respect of the finalisation of rules relating to proposals in Chapter 9 of CP5/24, the PRA has made minor changes to the rules it proposed to add to the Investments Part of the PRA Rulebook to restate part of CDR Article 257, resulting from the subsequent publication of PS7/24 – **Securitisation: General requirements**. The amendments include:
    - The replacement of references to Regulation (EU) 2017/2042 with references to the corresponding rules within the Securitisations Part of the PRA Rulebook that came into force on 1 November 2024 and the addition of the text 'due diligence' and 'risk retention' to help clarify the requirements referred to within those rules.
    - Changes to Chapter 3 (Investments in a Securitisation) of the SoP – The PRA's approach to Standard Formula adaptations to replace references to Regulation (EU) 2017/2042 with references to the Securitisation Part (as described in the preceding sentence) and to apply minor wording changes to improve clarity.

13.4 The PRA does not believe these amendments change the policy intention of the rules and policy material proposed in CP5/24. These amendments are primarily to reflect that subsequent publications have amended the materials consulted on in CP5/24. The PRA does not believe that these amendments impact on the objectives analysis, cost-Benefit analysis of have regards analysis proposed in CP5/24.

14: General and out of scope points raised by respondents

Introduction

14.1 This chapter provides feedback to general points and out of scope suggestions raised by respondents to CP5/24 that do not relate to the specific proposals set out in the individual chapters of the CP. It also includes points that address more broadly the PRA's approach to restating assimilated law into its policy material.

Changes to draft policy

14.2 The PRA has not made any changes to the draft rules it consulted on.

Feedback to responses

14.3 The PRA received responses from six respondents raising general points around its proposals. Feedback to the responses has been grouped as follows.

The PRA's approach to restatement

14.4 In CP5/24, the PRA proposed to restate provisions from assimilated law in its policy material without material changes to the policy substance unless explicitly mentioned in the CP. Generally, the PRA proposed to insert the assimilated law into its policy using new paragraphs with combinations of both letters and numbers, preserving the existing numbering of the PRA Rulebook and related guidance.

14.5 One respondent said the PRA should renumber its policy material to improve the flow of paragraph references, instead of using letters and numbers.

14.6 After considering the response, the PRA has decided not to change the numbering of its policy material. The PRA considers that it has taken a pragmatic and efficient approach to paragraph referencing in its PRA Rulebook and SSs when restating assimilated law. The approach maintains consistency in the way existing PRA policy materials are numbered and updated, making it easier for rulebook-users to identify new policy material restated from legislation. The approach also preserves existing cross-references between PRA rules and related guidance.

14.7 One respondent asked the PRA to clarify its approach to restating in its policy material a number of articles from the onshored CDR, which the respondent noted were missing from the mapping tables included in Appendix 2 of CP5/24.

14.8 The PRA notes that the mapping tables included in CP5/24 covered only those CDR articles that were subject to restatement in CP5/24. In particular, they excluded those articles that had already been restated as part of PS2/24, PS3/24, or were subject to consultation in CP19/24 (and were subsequently covered in PS10/24). In order to provide further clarity, the mapping tables published in Appendix 8 of this PS outline where all relevant Solvency II requirements set out in assimilated law and other areas have been restated into PRA rules and policy material, as described in paragraph 1.5 of this PS. This expands on the original mapping tables published in CP5/24 by including assimilated law that was covered under PS2/24, PS3/24 and PS10/24. The mapping tables are intended to assist firms in navigating to where the Solvency II requirements will be located in the PRA Rulebook and policy framework.

14.9 One respondent noted that the EU legislates using Directives (Level 1 texts), which give the European Commission the power to elaborate further using Delegated Regulations (Level 2 texts). The respondent said the PRA should not restate areas of assimilated law if there is duplication or contradiction between the Level 1 text (the Solvency 2 Regulations 2015) and the Level 2 text (the CDR).

14.10 After considering the response, the PRA has decided not to change the draft policy. The PRA has sought to minimise the risk of moving the scope of the proposals in CP5/24 from a restatement of the Solvency II requirements to a reinterpretation of the Solvency II framework, even if that may result in the perception of occasional overlap of the same requirements (as may already be the case where PRA rules transposing the Solvency II Directive overlap with assimilated law). The PRA considers that its approach contributes to the transparency of the restated material, as an omission could be interpreted as a change in policy. As noted below, the PRA may consider rulebook simplification as part of future policy development.

14.11 In CP5/24, the PRA did not propose to further define the term ‘reinsurance’, nor define the terms ‘insurance obligation’ or ‘reinsurance obligation’ in the PRA Rulebook Glossary.

14.12 One respondent suggested the PRA could define the terms ‘reinsurance’, ‘insurance obligation’ or ‘reinsurance obligation’ to make the PRA Rulebook clearer. Noting that UK law conceives of reinsurance undertakings as a type of insurance undertaking, the respondent also suggested the PRA should only refer to ‘reinsurance undertakings’ when provisions apply differently in respect of pure reinsurers.

14.13 After considering the response, the PRA has decided not to change the draft policy. As noted in paragraph 1.12 in Chapter 1 of CP5/24, the PRA has prioritised the restatement of the assimilated law into PRA policy material and has generally avoided making changes to the substance of the Solvency II framework, such as making changes to existing definitions and references. The PRA may consider the respondent's suggestions for improvements as part of its future policy development.

14.14 In paragraphs 1.27-1.29 in Chapter 1 of CP5/24, the PRA said that its proposals were dependent on various aspects of current and anticipated legislation relevant to Solvency II.

14.15 One respondent asked how the PRA and its proposals would be affected if the legislation were not implemented on time or as anticipated.

14.16 The Government has made the relevant legislation for the PRA's proposals prior to the publication of this PS, in line with the PRA's expectations. The legislation will ensure the PRA's proposals can come into force on the implementation date of Tuesday 31 December 2024. See Chapter 1 for more information on the relevant legislation.

14.17 One respondent noted that the Solvency II framework had changed in PRA rules and UK law following the UK's departure from the EU. The respondent asked the PRA to clarify how it had assessed the impact of these different changes when making new policy, citing the particular example of a mismatch between the Solvency II thresholds applied in law to define Public Interest Entities (PIEs), and the new Solvency II thresholds defined in the PRA Rulebook via PS2/24. The respondent asked whether this example contradicted the PRA's intention to move obligations from legislation to the Rulebook.

14.18 The purpose of the proposals of CP5/24 was to restate elements of assimilated law on Solvency II into PRA policy material, covering all aspects of the CDR, the Solvency 2 Regulations 2015, and related Technical Standards that were not already covered in PS2/24, PS3/24, and PS10/24. The consultation did not cover other areas of legislation that may apply to insurers, including where PIEs are defined in UK law.

The PRA's approach to EIOPA Guidelines

14.19 The PRA said that it would not restate guidelines issued by the European Insurance and Occupational Pensions Authority (EIOPA) in PRA policy material as part of CP5/24, though some chapters of the consultation would propose to incorporate certain guidelines on an exceptional basis. The PRA also reminded firms of its expectations regarding the continuing relevance of EIOPA guidelines.

14.20 Two respondents enquired about the UK's compliance with EIOPA guidelines, which they warned would become less consistent with PRA policy following the UK's departure from the EU. One respondent requested the PRA remove its dependence on EIOPA guidelines or clarify which of the guidelines remain relevant for firms. The second respondent asked the PRA to clarify its plans for updating and integrating the guidelines and requested clarity on their status as a form of policy.

14.21 After considering the responses, the PRA has decided not to change the draft policy. The PRA has set out its approach to EIOPA guidelines in the SoP – **The Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU**, which explains that the PRA generally expects that firms

should continue to consider the guidelines as relevant when complying with Solvency II requirements in the UK. The PRA has incorporated some EIOPA guidelines into PRA policy following this consultation, but only on an exceptional basis where the PRA considers the guidelines are necessary to ensure that restated requirements are sufficiently clear. As mentioned in paragraph 1.23 in Chapter 1 of CP5/24, the PRA will review the status of any remaining EIOPA guidelines at a later stage and may consult in future on any further changes.

Updating the name of Solvency II

14.22 In CP5/24, the PRA noted that the new UK prudential regime would eventually be known as Solvency UK but would remain as Solvency II for clarity and internal consistency of the PRA's policy material.

14.23 One respondent asked when the name of the regime would change from Solvency II to Solvency UK and questioned why the PRA had not already sought to change the name. The same respondent also asked whether firms would be expected to refer to Solvency II in their reports and accounts for year-end 2024. A second respondent urged the PRA to reconsider changing the name of the prudential regime to Solvency UK, noting that the name placed too much emphasis on the concept of 'solvency' and that international firms could confuse the regime with the EU's Solvency II.

14.24 The PRA considers that firms should use the term 'Solvency II' in their reports and accounts for year-end 2024, as this is in line with the name of the prudential regime in PRA policy material. The PRA has retained the name Solvency II to facilitate an efficient restatement of assimilated law within PRA policy, and to ensure consistency between policy material after restatement. The PRA expects to change the name of the regime in its policy material in the future, across all relevant materials. This may require further consultation.

Comments outside the scope of CP5/24

14.25 The PRA considers that several of the general comments made by respondents do not relate directly to the proposals in the CP. However, the PRA has sought to provide clarity in response to some of these issues below, where appropriate.

14.26 At least two respondents suggested further areas of reform, beyond the scope of restating assimilated law in PRA policy. This included suggestions for further simplifications to reporting and disclosure requirements, a clarification of the PRA's policy on unused Part 4A permissions, work to further integrate the UK's new Solvency II framework with HM Treasury in ways that might benefit growth, and to reconsider the treatment of junior notes being held outside the MAP in SS7/18 paragraph 2.62 and their accounting consolidation treatment.

14.27 The PRA has not provided specific feedback on the policy suggestions, because they do not relate directly to the proposals in CP5/24. The PRA may consider the suggestions as part of its future policy development.

14.28 One respondent questioned why the PRA has referred in recent Solvency II consultations to 'Lloyd's, its members and managing agents', noting that Lloyd's members are not regulated entities.

14.29 The PRA has referenced 'Lloyd's, its members and managing agents' in the text of some of its recent consultations to refer to Lloyd's and its whole risk structure. For the avoidance of doubt, the PRA does not consider Lloyd's members to be PRA-regulated entities.

14.30 One respondent asked the PRA to clarify its use of the phrase ‘establishing provisions to cover’ in paragraph 6.12 in Chapter 6 of PS2/24, stating that the word ‘provision’ could create confusion because it is an accounting term.

14.31 The PRA recognises that the word ‘provision’ is an accounting term, however paragraph 6.12 of PS2/24 clarifies its use in this context by saying that the ‘PRA confirms that third-country branch undertakings are required to calculate and hold assets covering the branch best estimate of liabilities’.

14.32 One respondent asked the PRA to update the requirement in Technical Provisions 2.1 and Third Country Branches 6.1 to specify that firms must cover their technical provisions with appropriate assets.

14.33 The comment is out of the scope because it relates to rules that were not proposed to be changed by CP5/24, but the PRA has noted it.

14.34 One respondent commented that the PRA should consider updating the definition of ‘technical provisions’ in the PRA Rulebook Glossary to remove a perceived circular reference with Technical Provisions 2.1 of the PRA Rulebook.

14.35 The comment is out of scope because it relates to a definition that was not proposed to be changed by CP5/24, but the PRA has noted it and may consider the suggestion as part of its future policy development.

15: Other minor amendments to PRA rules, reporting templates and instructions and policy material

Introduction

15.1 This chapter summarises all other minor amendments made to PRA policy materials including reporting and disclosure templates and instructions, which are due to take effect on 31 December 2024. This chapter should be read alongside Appendices 1, 4-7, and 9-29.

15.2 This chapter:

- confirms the final rules that were published as 'near-final' in PS2/24, PS3/24 and PS10/24 – which are provided as updated rule instruments contained in Appendices 4 and 5;
- confirms the final policy material (ie SSs and SoPs) that were published as 'near-final' in PS2/24 and PS3/24. These are listed in Appendices 27 and 28 alongside other Solvency II policy material;
- confirms the final reporting and disclosure templates and instructions that were published as 'near-final' in PS3/24, as well as the Matching Adjustment Asset and Liability Information Return (MALIR) template and instructions introduced by PS10/24, which are listed in Appendix 29; and
- notes further minor amendments to other PRA rules and policy material.

15.3 The majority of these involve amendments to refer to the PRA Rulebook and relevant parts of the UK's regulatory framework instead of assimilated law and EU Directives. This is consistent with the approach described in paragraph 1.4 of Chapter 1 of this PS. As these amendments do not result in policy changes and are not significant, these changes are not described further in this chapter. Similarly, minor amendments, to address typographical errors, formatting and updates to cross-references in the PRA Rulebook have also been made, without further comment. Any other minor amendments beyond those described in the preceding sentences in this paragraph, are described in the remainder of this chapter.

15.4 The PRA considers that the changes described in this chapter do not alter the original policy intent of the near-final rules, policy material, and reporting and disclosure templates and instructions published in PS2/24, PS3/24, PS10/24, and therefore do not impact any PRA objectives analysis, or have regards analysis set out in those policy statements.

15.5 The PRA considers the costs and benefits of the final rules, policy material and reporting and disclosure templates and instructions do not significantly differ overall from those derived from the near-final rules, policy material and reporting and disclosure templates and instructions in PS2/24, PS3/24 and PS10/24 and, therefore, the cost benefit analyses published with those policy statements are not impacted. The PRA also does not consider that the impact of the final rules, policy material and reporting and disclosure templates and instructions would have a significantly different impact on mutuals relative to the impact of the near-final rules, policy material and reporting and disclosure templates and instructions on mutuals or on other PRA authorised firms.

Finalisation of PRA Rules

Solvency II Reform Rule Instrument

15.6 The final rule instrument in respect of Solvency II reforms is in Appendix 4. This rule instrument contains the amalgamation of the PRA's final policy in respect of:

- The now finalised rules originally published in PS2/24. The main updates that the PRA has made to this final rule instrument, compared to the near-final rules published as part of PS2/24, are as follows:
    - updates to reflect changes to defined terms in other parts of the Rulebook, in particular to make use of new defined terms added as a part of or for consistency with restated rules in this PS;
    - subsequent amendments to some near-final rules and PRA Rulebook Glossary definitions that the PRA has updated to reflect further amendments made in this PS;
    - the removal of some near-final rules published in PS2/24 that have already been implemented through the Matching Adjustment reforms published in PS10/24; and
    - a correction to rule 5.2 in the Transitional Measures on Technical Provisions Part of the PRA Rulebook to ensure that TMTP also amortises in a consistent manner for firms that report quarterly, in line with the original policy intent.
- The PRA's final policy in respect of some of the amendments to the Group Supervision, Third Country Branches and Glossary Parts of the PRA Rulebook covered in CP5/24. This is because the PRA has considered these aspects of the PRA Rulebook in multiple consultations, hence for ease of reading and understanding, all the amendments have been amalgamated.

Solvency II Reporting Reform Rule Instrument

15.7 The final rule instrument in respect of Solvency II Reporting reforms is in Appendix 5.

15.8 Due to multiple consultations, and for ease of reading and understanding, all the amendments to the Reporting Part of the PRA Rulebook as a result of PS3/24, PS10/24 and CP5/24, have been amalgamated into this one instrument. This exercise included a review of the defined terms in the amalgamated instrument to align with the rest of the PRA Rulebook.

15.9 This rule instrument therefore contains an amalgamation of the following rules:

- the now finalised rules originally published in PS3/24. The main updates that have been made to this final rule instrument, compared to the near-final rules published as part of PS3/24, are as follows:
    - minor drafting changes in relation to the use of defined terms;
    - correcting template reference IR.05.03.02 to IR.05.03.01 in Articles 39 1(d) and 44 1(c) of Chapter 2A of the Reporting Part of the PRA Rulebook;
    - updating Article 27 1(b) and Article 27 1(c) of Chapter 2A of the Reporting Part of the PRA Rulebook to clarify the reporting conditions for the annual reporting of IR.06.02 and IR.06.03 by insurance groups;
- the now finalised reporting rules originally published in PS10/24 as near final reporting reform rules in respect of the matching adjustment (in Appendix 2 of PS10/24); and
- the final disclosure rules for the restatement of assimilated law proposed in CP5/24.

Solvency II Rule Instrument

15.10 The final rule instrument in respect of the restatement of assimilated law is in Appendix 6. This rule instrument contains the amalgamation of the PRA's final policy in respect of:

- The final rules for the restatement of assimilated law proposed in CP5/24, including the changes to draft policy set out in each of the individual chapters of this PS have been included in the final rules. The instrument includes final rules from the chapters in CP5/24 that received no responses, which are listed in paragraph 13.1.
- The PRA has made amendments to the Glossary, Actuaries, External Audit, Financial Conglomerates, Investments, Lloyd's, Technical Provisions, Third Country Branches and Transitional Measures Parts in order to delete the defined terms 'Solvency 2 Regulations' and 'Solvency II regulations' and replace the assimilated law references. These amendments have been made in line with the approach set out in paragraph 15.3 as mentioned above.

Finalisation of PRA policy material

Finalisation of policy material consulted on in CP5/24

15.11 Appendices 9 to 26 contain the PRA's final policy material relating to the proposals in CP5/24, including amendments the PRA has made in response to comments received from respondents to the consultation. Where policy material has been consulted on in multiple

consultations, the PRA has amalgamated all relevant amendments within the finalised material. Any changes to those policy material have been described in the individual chapters of this PS.

Other policy material that has been amended

15.12 Appendix 27 contains Solvency II policy material where the PRA has made minor amendments, in-line with the approach described in paragraph 15.3 above. The majority of these amendments ensure that these policy materials refer to the PRA Rulebook and UK's regulatory framework, instead of assimilated law. This appendix contains:

- policy material from PS2/24 and PS3/24 that were published as 'near-final', and following these minor amendments can now be considered final;
    - In respect of Statement of Policy – **Solvency II internal models: Permissions and ongoing monitoring**, minor amendments have been made to refer to the Internal Model Application Template (IMAT).[29]
- policy material from PS10/24, where the PRA has made minor amendments; and
- other policy material relevant to UK Solvency II firms, where the PRA has made minor amendments.

Policy materials that have not been amended

15.13 For completeness, Appendix 28 contains Solvency II policy material where the PRA has not made any amendments, for example because these did not contain references to assimilated law that needed to be removed. This appendix contains:

- policy material from PS2/24 and PS3/24 that can be considered final;
- other policy material relevant to UK Solvency II firms; and
- final deleted policy material as set out in PS2/24 and PS3/24.

Finalisation of near-final reporting and disclosure templates and instructions

15.14 Finally, Appendix 29 contains the finalised reporting and disclosure templates and instructions from PS3/24 and PS10/24 (which were published as near-final in those publications). Where minor changes have been made to the reporting and disclosure templates, these are in line with the approach described in paragraph 15.3 above. Other minor changes are set out in Appendix 29.

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29 **Insurance rule permissions and notifications | Bank of England**

15.15 As described in paragraphs 15.3 to 15.5 above, the PRA considers that these amendments do not alter the original policy intent as set out in PS3/24 and PS10/24, or substantively change the information that will be reported and disclosed by firms.