

PRA RULEBOOK: SOLVENCY II GLOSSARY AMENDMENTS INSTRUMENT 2015

Powers exercised

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137G (The PRA's general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA) and section 319 of the Act (Consultation), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and the proposed direction and had regard to representations made.

PRA Rulebook: Solvency II Glossary Amendments Instrument 2015

- D. The PRA makes the amendments in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Glossary Amendments Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

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

Insert the following new definitions (in the appropriate alphabetical position) into the Glossary Part of the *PRA Rulebook*:

ancillary own funds

- (1) (in relation to a *UK Solvency II firm* and Lloyd's) has the meaning given in Own Funds 2.3 and are determined in accordance with Own Funds 2.3 to 2.7; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with the applicable *Solvency II EEA implementing measures*; or
- (3) (in relation to an *insurance holding company*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 89 of the *Solvency II Directive*]

approved reinsurance to close

means;

- (1) a *reinsurance to close* effected before 1 January 2005; or
- (2) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with the *members* of that *syndicate* in a later *syndicate year* or the *members* of one other *syndicate* ("the reinsuring *members*") that the reinsuring *members* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out of the *insurance business* carried on by the reinsured *members* in that *syndicate year* that is:
 - (a) effected after 1 January 2005; and
 - (b) not a balance transfer between two *syndicate years* where the *syndicate* has only one *member* and the *member* is the same in each of those years; or
- (3) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with a *subsidiary* of the *Society* that that *subsidiary* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out of the *insurance business*

carried on by the reinsured *members* in that *syndicate year* ("the reinsured liabilities") and where:

- (a) that *subsidiary* is wholly owned by the *Society* and if from time to time the *subsidiary* has an asset or cash flow deficiency such that the *subsidiary* is unable to meet any of the liabilities which it has reinsured, the *Society* is legally obliged to pay to the *subsidiary* a sum equal to that deficiency; and
- (b) at the effective date of the agreement, the relevant *syndicate year* has been open for at least two years after the date at which it would normally have been closed in accordance with the policies and practices in relation to the *syndicate* concerned.

Article 12(1) relationship

means a relationship where *undertakings* are linked by a relationship within the meaning of Article 12(1) of Council Directive of 13 June 1983 on consolidated accounts (No 83/349/EEC).

authorised UK representative

means (in relation to a *firm*) a *person* resident in the *UK* who is authorised to act generally, and to accept service of any document, on behalf of the *firm*.

basic own funds

(in the Solvency II Firms Sector of the *PRA* Rulebook):

- (1) (in relation to a *UK Solvency II firm* and Lloyd's), has the meaning given in Own Funds 2.2; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) means an *own funds* item referred to in Article 88 of the *Solvency II Directive*, determined in accordance with the applicable *Solvency II EEA implementing measures*; or
- (3) (in relation to an *insurance holding company*) means an *own funds* item referred to in Article 88 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) means an *own funds* item referred to in article 88 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 88 of the *Solvency II Directive*]

basic SCR

means the minimum basic *SCR*, as set out in Solvency Capital Requirement to Standard Formula 3 and as supplemented by the *Solvency II Regulations*.

beneficiary

means any *person* who is entitled to a right under a *contract of insurance*.

[Note: Recital 16 of the *Solvency II Directive*]

best estimate

means the best estimate of future cash-flows, calculated in accordance with Technical Provisions 3.

byelaw

means any Byelaw, direction, regulation, or other instrument made using the powers of the *Council* under section 6 of Lloyd's Act 1982 (including any regulation ratified by the *Council* by special resolution) and any condition or requirement made under any such Byelaw, direction, regulation or other instrument.

capital add-on

means the amount by which the *SCR* of a *UK Solvency II firm*, or the *group SCR* of a *group* (as appropriate), is increased by the *PRA* as a result of a *standard formula significant risk profile deviation, internal model significant risk profile deviation, significant system of governance deviation, significant deviation from relevant assumptions* or (if appropriate) a specific risk existing at *group level*.

central assets

means the *Society's* own assets that are available at its discretion to meet a *member's* liabilities in respect of *insurance business*.

Central Fund

means the Central Fund established under Lloyd's Central Fund Byelaw (No 4 of 1986) and the New Central Fund established under Lloyd's New Central Fund Byelaw (No 23 of 1996).

central liabilities

means the liabilities of the *Society*, excluding any liabilities of *members* (unless the *Society* has exercised its discretion to meet such liabilities) or any other participant at Lloyd's other than the *Society*.

central requirement

means the calculation made by the *Society* pursuant to the requirements of Solvency Capital Requirement – General Provisions 7.3.

class

means (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order*.

close links

(in the Solvency II Firms Sector of the *PRA* Rulebook) means a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same *person* by a *control* relationship.

[Note: Art. 13(17) of the Solvency II Directive]

Community co-insurance operation

means a co-insurance operation which relates to one or more risks classified under *general insurance business classes* 3 to 16 and which fulfils the conditions set out in Article 190(1)(a) to (f) of the *Solvency II Directive*.

composite firm

means a *firm* that carries on both *long-term insurance business* and *general insurance business*.

contract for differences

means the investment specified in article 85 of the *Regulated Activities Order*.

contract of insurance

has the meaning given in article 3(1) of the *Regulated Activities Order*.

control

(in the Solvency II Firms Sector of the *PRA Rulebook*) means the relationship between a *parent undertaking* and a *subsidiary undertaking* where that relationship falls within (a) to (g) of the definition of *parent undertaking*, or a similar relationship between any *person* and an *undertaking*.

[Note: Art. 13(18) of the *Solvency II Directive*]

credit risk

means the risk of loss, or of adverse change, in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which a *Solvency II undertaking* is exposed, in the form of counterparty default risk, or *spread risk*, or *market risk* concentrations.

[Note: Art. 13(32) of the *Solvency II Directive*]

cross border services

means:

- (1) (in relation to a *UK firm*) services provided within an *EEA State* other than the *UK* under the freedom to provide services; and
- (2) (in relation to an *incoming EEA firm* or an *incoming Treaty firm*) services provided within the *UK* under the freedom to provide services.

deposit back arrangement

(in relation to any *reinsurance contract*) means an arrangement whereby an amount is deposited by the *reinsurer* with the cedant.

derivative

means a *contract for differences*, a *future* or an *option*.

diversification effects

means the reduction in the risk exposure of *UK Solvency II firms* related to the diversification of their business, resulting from the fact that the adverse outcome from

one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.

[Note: Art. 13(37) of the Solvency II Directive]

EEA

means the area established by the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being and which consists of the *EEA States*.

EEA State

(in the Solvency II Firms Sector of the *PRA Rulebook*) has the meaning given in the Interpretation Act 1978 and, where the context requires, includes references to Gibraltar as appropriate.

EIOPA

means the European Insurance and Occupational Pensions Authority established in accordance with Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010.

eligible own funds

means:

- (1) as to compliance with a *UK Solvency II firm's SCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *eligible Tier 2 own funds*; and
 - (c) *eligible Tier 3 own funds*; and
- (2) as to compliance with a *UK Solvency II firm's MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *eligible Tier 2 own funds*; and
- (3) as to compliance by a *composite firm* with the *notional life MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4 as if references to the "*MCR*" in those provisions were references to the *notional life MCR*; and the limits in the *Solvency II Regulations*; and

- (4) as to compliance by a *composite firm* with the *notional non-life MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and

- (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4.2 as if references to the “MCR” in those provisions were references to the *notional non-life MCR*; and the limits in the *Solvency II Regulations*.

- (5) as to compliance with the *branch SCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) (i) *Tier 2 own funds*; and
 (ii) *Tier 3 own funds*

that satisfy the limits in Own Funds 4.1, as if references to the “SCR” in those provisions were references to the *branch SCR*; and the limits in the *Solvency II Regulations*.

- (6) as to compliance with the *branch MCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) *Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2 as if references to the “MCR” in those provisions were references to the *branch MCR*; and the limits in the *Solvency II Regulations*.

- (7) as to compliance with the *EEA SCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) (i) *Tier 2 own funds*; and
 (ii) *Tier 3 own funds*

that satisfy the limits in Own Funds 4.1, as if references to the “SCR” in those provisions were references to the *EEA SCR*; and the limits in the *Solvency II Regulations*.

- (8) as to compliance with the *EEA MCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) *Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2, as if references to the “MCR” in those provisions were references to the *EEA MCR*; and the limits in the *Solvency II Regulations*.

eligible Tier 2 own funds

means;

- (1) as to compliance with a *UK Solvency II firm’s SCR*, the *UK Solvency II firm’s Tier 2 own funds* that satisfy the limits set out in Own Funds 4.1(1) and the *Solvency II Regulations*; and

- (2) as to compliance with a *UK Solvency II firm's MCR*, the *firm's Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2 and the *Solvency II Regulations*.

eligible Tier 3 own funds

means, as to compliance with a *UK Solvency II firm's SCR*, the *firm's Tier 3 own funds* that satisfy the limits set out in Own Funds 4.1(2).

employers' liability

means a *contract of insurance* against risks of the *persons* insured incurring liabilities to their employees.

exceptional adverse situation

means situations where the financial situation of a firm representing a significant share of the market or the affected lines of business is seriously or adversely affected by one or more of the following:

- (1) a fall in financial markets which is unforeseen, sharp and steep;
- (2) a persistent low interest rate environment;
- (3) a high impact catastrophic event.

excluded assets

means, in relation to a *with-profits fund*, those assets which the *firm* has clearly identified in its policy documentation, *PPFM*, other *policyholder* communication or otherwise in accordance with any relevant provision of the *FCA Handbook* as:

- (1) available to cover the *firm's* liabilities arising from *with-profits policies* only in particular circumstances; and
- (2) not forming part of that *with-profits fund*.

FCA Handbook

means the *FCA's Handbook* of rules and guidance.

finance scheme

means the finance scheme required to be provided by a *UK Solvency II firm* to the *PRA* under Undertakings in Difficulty 4.1(2).

function

means, within a system of governance, an internal capacity to undertake practical tasks.

[Note: Art. 13(29) of the Solvency II Directive]

funds at Lloyd's

means the assets (not being *syndicate assets*) provided by or on behalf of a *member* to meet the liabilities arising from the *member's insurance business* at Lloyd's which are held in a *Lloyd's trust fund* and managed by the *Society* as trustee.

future

means the investment specified in article 84 of the *Regulated Activities Order*.

future policy-related liabilities

means, in relation to a *with-profits fund*, the aggregate of the following amounts (to the extent each constitutes a liability) less the aggregate of such amounts (to the extent each constitutes an asset):

- (1) planned deductions for the costs of guarantees, options, smoothing and provision of life cover and other benefits from the amount calculated in accordance with Surplus Funds 3.3 or, where a *firm* is required under Surplus Funds 3.2 to use the calculation method in Surplus Funds 3.4, in accordance with Surplus Funds 3.4;
- (2) planned deductions for other costs deemed chargeable to the amount calculated in accordance with Surplus Funds 3.3 or, where a *firm* is required under Surplus Funds 3.2 to use the calculation method in Surplus Funds 3.4, in accordance with Surplus Funds 3.4;
- (3) future costs of contractual guarantees (other than financial options);
- (4) future costs of financial options, including guaranteed annuity and cash options;
- (5) future costs or proceeds of smoothing;
- (6) future liabilities to repay financing costs of a *with-profits fund* where the *firm* expects to have to meet such liabilities; and
- (7) other future costs related to the provision of the benefits referred to in Surplus Funds 3.4(4) (regardless of whether the *firm* is required to effect the calculation in Surplus Funds 3.4),

but only to the extent that they are not already included in the amount calculated in accordance with Surplus Funds 3.3 or, if applicable, Surplus Funds 3.4.

general insurer

means an *insurer* with *permission* to effect contracts of insurance or carry out contracts of insurance that are contracts of general insurance.

group

(in the Solvency II Firms Sector of the *PRA Rulebook*) means a group of *undertakings* that:

- (1) consists of a *participating undertaking*, its *subsidiary undertakings* and the *undertakings* in which it holds a participation, as well as *undertakings* linked to each other by an *Article 12(1) relationship*; or
- (2) consists of a *mutual-type group*.

[Note: Art. 212(1)(c) of the Solvency II Directive]

group SCR

means the solvency capital requirement calculated at the level of the *group*, in accordance with Group Supervision 4 to 15.

insurance holding company

means a *parent undertaking*, other than a *Solvency II undertaking* and a *mixed financial holding company*, the main business of which is to acquire and hold *participations* in *subsidiary undertakings* and which fulfils the following conditions:

- (1) its *subsidiary undertakings* are either exclusively or mainly *Solvency II undertakings*, *third country insurance undertakings* or *third country reinsurance undertakings*; and
- (2) at least one of those *subsidiary undertakings* is a *Solvency II undertaking*.

[Note: Art. 212(1)(f) of the Solvency II Directive]

internal model

means the methodology used by a *firm* to calculate part or all of its *SCR*, or by a *group* to calculate part or all of its *group SCR*, in place of the *standard formula*.

internal model approval

means:

- (1) the approval granted to a *firm* by the *PRA* to use an *internal model* to calculate part (*partial internal model*) or all of its *SCR*;
- (2) in relation to a *UK Solvency II firm* that is a member of a *group*, the approval granted to that *firm* by the *PRA* to use an *internal model* to calculate part (*partial internal model*) or all of its *group SCR*.

internal model significant risk profile deviation

means the determination by the *PRA* of a significant deviation in the risk profile of a *UK Solvency II firm*, or a *group* (as appropriate), from the assumptions underlying the *SCR* (or *group SCR*, as appropriate) in circumstances where the *firm's SCR* (or the *group's group SCR*, as appropriate) is calculated using an *internal model*.

ISPV

means an *undertaking*, whether incorporated or not, other than a *Solvency II undertaking*, which has received authorisation in accordance with Article 211(1) or (3) of the *Solvency II Directive* and which:

- (1) assumes risks from *Solvency II undertakings*; and
- (2) fully funds its exposures to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the *undertaking's* obligations to the *Solvency II undertaking* in respect of the risks referred to in (1).

[Note: Art. 13(26) of the Solvency II Directive]

key function

- (1) in relation to a *firm* (other than a *third country branch undertaking*), means each of the following in relation to the carrying on of a *regulated activity* by a *firm*:
- (a) the risk-management *function*;
 - (b) the compliance *function*;
 - (c) the internal audit *function*;
 - (d) the actuarial *function*;
 - (e) the *function* of effectively running the *firm*; and
 - (f) any other *function* which is of specific importance to the sound and prudent management of the *firm*;
- (2) in relation to a *third country branch undertaking* (other than a *Swiss general insurer*) means, in relation to the carrying on of a *regulated activity* by the *third country branch undertaking*, each of the following *functions* performed in relation to the operations effected by the *third country branch* or, for a *UK-deposit insurer*, in relation to the operations effected by the *third country branch* and all the *third country undertaking EEA branches*:
- (a) the risk-management *function*;
 - (b) the compliance *function*;
 - (c) the internal audit *function*;
 - (d) the actuarial *function*;
 - (e) the *function* of effectively running the operations effected by the *third country branch* or, for a *UK-deposit insurer*, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*;
 - (f) the *function* of being the *authorised UK representative*; and
 - (g) any other *function* which is of specific importance to the sound and prudent management of the *third country branch* or, for a *UK-deposit insurer*, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

key function holder

means any *person* who is responsible for discharging a *key function*.

leading insurer

means (in relation to a *Community co-insurance operation*) a co-insurer that assumes the leader's role in co-insurance practice and in particular determines the terms and conditions of insurance and rating.

linked long-term

means (in relation to a *contract of insurance*) a *contract of long-term insurance* where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Lloyd's trust deed

means a trust deed in the form prescribed by the *Society* and notified to the *PRA*, for execution by a *member* in respect of his *insurance business*.

Lloyd's trust fund

means a fund held on the terms of a *Lloyd's trust deed*.

long-term insurer

means an *insurer* with *permission* to *effect contracts of insurance* or *carry out contracts of insurance* that are *contracts of long-term insurance*.

major business unit

has the meaning given in Article 1(41) or (42) of the *Solvency II Regulations*, as appropriate.

matching adjustment

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

- (1) Technical Provisions 6 and 7;
- (2) the *Solvency II Regulations* adopted under Article 86(1)(h) - (i) of the *Solvency II Directive*; and
- (3) any technical information made by *EIOPA* under Article 77e(1)(b) of the *Solvency II Directive* and adopted in the *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

matching adjustment approval

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

mathematical reserves

the provision made by an *insurer* to cover liabilities (excluding liabilities which have fallen due and liabilities arising from *deposit back arrangements*) arising under or in connection with *contracts of long-term insurance*.

MCR

means the minimum capital requirement calculated in accordance with the Minimum Capital Requirement Part of the *PRA* Rulebook.

mixed financial holding company

(in the Solvency II Firms Sector of the *PRA Rulebook*) means a mixed financial holding company as defined in Article 2(15) of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

[Note: Art. 212(1)(h) of the Solvency II Directive]*mutual*

means an *insurer* which:

- (1) if it is a *body corporate*, has no *share capital* (except a wholly owned *subsidiary undertaking* with no *share capital* but limited by guarantee); or
- (2) is a *registered friendly society* or *incorporated friendly society*; or
- (3) is a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies (Northern Ireland) Act 1969.

mutual-type group

means a group of *undertakings* that is based on the establishment, contractually or otherwise, of strong and sustainable financial relationships among those *undertakings*, and that may include mutual or mutual-type associations, provided that:

- (1) one of those *undertakings* effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other *undertakings* that are part of the group of *undertakings*; and
- (2) the establishment and dissolution of such relationships for the purposes of Title III of the *Solvency II Directive* are subject to prior approval by the *group supervisor*,

where the *undertaking* exercising the centralised coordination shall be considered as the *parent undertaking*, and the other *undertakings* shall be considered as *subsidiary undertakings*.

[Note: Art. 212(1)(c)(ii) of the Solvency II Directive]*national specific template*

means a template which a *firm* is required to complete pursuant to Reporting 2.6 and 2.8.

non-profit insurance business

means the business of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *non-profit policies*.

non-profit policy

means a *contract of long-term insurance* which is not a *with-profits policy*.

notional life MCR

means the notional minimum capital requirement calculated under Composites 4.2(1).

notional life SCR

means the notional solvency capital requirement for *long-term insurance business*, calculated in accordance with the *Solvency II Regulations*.

notional non-life MCR

means the notional minimum capital requirement calculated under Composites 4.2(2).

notional non-life SCR

means the notional solvency capital requirement for *general insurance business*, calculated in accordance with the *Solvency II Regulations*.

operational risk

(in the Solvency II Firms Sector of the *PRA Rulebook*) means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, including legal risks which, for the purposes of Solvency Capital Requirement – General Provisions 3.3(1), includes legal risks but excludes risks arising from strategic decisions and reputational risks.

[Note: Art. 13(33) and Art. 101(4) of the *Solvency II Directive*]

option

means the investment specified in article 83 of the *Regulated Activities Order*.

ORSA

means the own risk and solvency assessment carried out from time to time, as detailed in Conditions Governing Business 3.8 to 3.11.

outsourcing

means an arrangement of any form between a *Solvency II undertaking* and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the *Solvency II undertaking* itself.

[Note: Art. 13(28) of the *Solvency II Directive*]

own funds

(in the Solvency II Firms Sector of the *PRA Rulebook*) means:

- (1) (in relation to a *UK Solvency II firm* and Lloyd's) the *firm's* aggregate *basic own funds* and *ancillary own funds* as determined in accordance with the Own Funds Part of the *PRA Rulebook*; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) own funds determined in accordance with *Solvency II EEA implementing measures*; or

- (3) (in relation to an *insurance holding company*) own funds determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) the *firm's* aggregate *basic own funds* and *ancillary own funds* as determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 87 of the Solvency II Directive]

parent undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means, in accordance with section 420 of *FSMA* (Parent and subsidiary undertaking) and section 1162 of the Companies Act 2006 (Parent and subsidiary undertakings), an *undertaking* which has the following relationship to another *undertaking* ("S"):

- (1) it holds a majority of the voting rights in S; or
- (2) it is a member of S and has the right to appoint or remove a majority of its board of *directors*; or
- (3) it has the right to exercise a dominant influence over S through:
 - (a) provisions contained in S's memorandum or articles; or
 - (b) a control contract; or
- (4) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or
- (5) (a) it has the power to exercise, or actually exercises, dominant influence or control over S; or
 - (b) it and S are managed on a unified basis; or
- (6) it is a *parent undertaking* of a *parent undertaking* of S; or
- (7) (except as the Group Supervision Part of the *PRA Rulebook* applies to *members* of the *Society* or to the *Society* or *managing agents* in respect of *members*) it is incorporated in or formed under the law of another *EEA State* and is a parent undertaking within the meaning of any rule of law in that *EEA State* for purposes connected with implementation of the Council Directive of 13 June 1983 on consolidated accounts (No 83/349/EEC); or
- (8) where, in accordance with Article 212(2) of the *Solvency II Directive*, it effectively exercises a dominant influence over S;

and:

- (9) in relation to (2) and (4), the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any *shares* in S are held by a person acting on behalf of the *undertaking* or any of its *subsidiary undertakings*;
- (10) the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (1) to (6).

[Note: Art. 212(2) of the Solvency II Directive]*partial internal model*

means an *internal model* that is:

- (1) used to calculate one or more of the following:
 - (a) one or more risk modules, or sub-modules, of the *basic SCR*;
 - (b) the capital requirement for *operational risk* set out in Solvency Capital Requirement – Standard Formula 5;
 - (c) the adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes set out in Solvency Capital Requirement – Standard Formula 6; or
- (2) applied to the whole of a *firm's insurance business*, or only to one or more of its *major business units*.

[Note: Art. 112(2) of the Solvency II Directive]*participating Solvency II undertaking*

means a *Solvency II undertaking* that holds a *participation* in another *undertaking*.

participating undertaking

means an *undertaking* that holds a *participation* in another *undertaking*, or an *undertaking* linked with another *undertaking* by an *Article 12(1) relationship*.

[Note: Art. 212(1)(a) of the Solvency II Directive]*participation*

(in the Solvency II Firms Sector of the *PRA Rulebook*) means:

- (1) the ownership, direct or by way of *control*, of 20% or more of the voting rights or capital of an *undertaking*; or
- (2) where, in accordance with Article 212(2) of the *Solvency II Directive*, an *undertaking* effectively exercises a significant influence over another *undertaking*.

[Note: Art. 13(20) and 212(2) of the Solvency II Directive]*policy*

has the meaning given in article 2 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361).

policyholder

means, in respect of a *contract of insurance* where the *insurance undertaking* is a *Solvency II undertaking*, a policyholder, which includes a *beneficiary*.

PPFM

means the Principles and Practices of Financial Management which a firm carrying on *with-profits insurance business* must establish, maintain and record under COBS 20.3 of the *FCA Handbook*.

premium

means the consideration payable under a *contract of insurance* by the *policyholder* to the *insurer*.

pre-Solvency II MCR

means the minimum capital requirement that applied to the *UK Solvency II firm* under *PRA* rules as at 31 December 2015.

probability distribution forecast

means a mathematical function that assigns a probability of realisation to an exhaustive set of mutually exclusive future events.

[Note: Art. 13(38) of the Solvency II Directive]

pure reinsurer

means an *insurer* whose *insurance business* is restricted to *reinsurance*.

quasi-derivative

a contract or asset having the effect of a *derivative* contract.

recovery plan

means:

- (1) (except in the Group Supervision Part of the *PRA* Rulebook), the recovery plan required to be provided by a firm to the *PRA* under Undertakings in Difficulty 3.1(2); and
- (2) (in the Group Supervision Part of the *PRA* Rulebook), the recovery plan required to be provided by a *relevant insurance group undertaking* to the *PRA* under Group Supervision 4.4(2).

reinsurance contract

means a *contract of insurance* covering all or part of a risk to which a *person* is exposed under a *contract of insurance*.

reinsurance to close

means:

- (1) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with the *members* of that *syndicate* in a later *syndicate year* or the *members* of another *syndicate* ("the reinsuring *members*") that the reinsuring *members* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out

of the *insurance business* carried on by the reinsured *members* in that *syndicate year*; or

- (2) a similar *reinsurance* agreement or arrangement that has been approved by the *Council* as a reinsurance to close.

relevant insurance group undertaking

means, in relation to a *group* falling within Group Supervision 2.1(1)(a) or 2.1(1)(b), each *UK Solvency II undertaking* within that *group*.

relevant insurer

means, in relation to a *Community co-insurance operation*, an *insurer* which is concerned in the operation but is not the *leading insurer*.

relevant portfolio of insurance or reinsurance obligations

means a portfolio of insurance or *reinsurance* obligations falling within any *long-term insurance business class*, including annuities stemming from a *contract of general insurance*, in respect of which a *firm* has been granted a *matching adjustment approval*.

relevant risk-free interest rate term structure

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

- (1) Technical Provisions 5 and 8.3 to 8.4;
- (2) the *Solvency II Regulations* adopted under Article 86 of the *Solvency II Directive*; and
- (3) any technical information made by *EIOPA* under Article 77e(1)(a) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

risk-free interest rate transitional measure

means a transitional adjustment to the *relevant risk-free interest rate term structure*, referred to in Transitional Measures 10.1.

risk margin

means the portion of *technical provisions* calculated in accordance with Technical Provisions 4.1 to 4.2.

risk measure

means a mathematical function which assigns a monetary amount to a given *probability distribution forecast* and increases monotonically with the level of risk exposure underlying that *probability distribution forecast*.

[Note: Art. 13(39) of the *Solvency II Directive*]

risk-mitigation techniques

means all techniques which enable a *Solvency II undertaking* to transfer part or all of its risks to another party.

[Note: Art. 13(36) of the Solvency II Directive]

SCR

means the solvency capital requirement calculated in accordance with the *SCR Rules*.

[Note: Art. 100 of the Solvency II Directive]

SCR Rules

means the *PRA* rules contained in the Solvency Capital Requirement – General Provisions Part of the *PRA* Rulebook, the Solvency Capital Requirement – Standard Formula Part of the *PRA* Rulebook and the Solvency Capital Requirement – Internal Models Part of the *PRA* Rulebook.

security

(in the Solvency II Firms Sector of the *PRA* Rulebook) has the meaning specified in article 3(1) of the *Regulated Activities Order*.

SFCR

means the solvency and financial condition report, as detailed in Reporting 3 to 6.

share

means the investment specified in article 76 of the *Regulated Activities Order*.

significant deviation from relevant assumptions

means a significant deviation from the assumptions underlying the *matching adjustment* or the *volatility adjustment* or the transitional measures referred to in Articles 308c and 308d of the *Solvency II Directive*.

significant system of governance deviation

means the determination by the *PRA* of a significant deviation by a *UK Solvency II firm*, or a *group* (as appropriate), from the system of governance requirements set out in Conditions Governing Business 2.2 to 7 (including pursuant to Group Supervision 17.1(1) where appropriate).

Solvency II Directive

means the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No 2009/138/EC).

Solvency II implementation date

means 1 January 2016.

Solvency II EEA implementing measures

means any measures implementing the *Solvency II Directive* in an *EEA State* other than the *UK*.

Solvency II Regulations

means the directly applicable EU Regulations adopted in accordance with the *Solvency II Directive*.

Solvency II undertaking

means:

- (1) an *undertaking* authorised in accordance with *Solvency II EEA implementing measures* transposing Article 14 of the *Solvency II Directive*; or
- (2) a *UK Solvency II firm*.

spread risk

means the risk that a spread (that is, the difference in price or yield) between two variables will change.

standard formula

means a methodology used by a *firm* to calculate its *SCR* according to the rules in the Solvency Capital Requirement – Standard Formula Part of the *PRA Rulebook*.

standard formula significant risk profile deviation

means the determination by the *PRA* of a significant deviation in the risk profile of a *UK Solvency II firm*, or a *group* (as appropriate), from the assumptions underlying the *SCR* (or *group SCR*, as appropriate) in circumstances where the *firm's SCR* (or the *group's group SCR*, as appropriate) is calculated using the *standard formula*.

subsidiary undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* of which another *undertaking* is its *parent undertaking*.

supervisory authority

means a national authority or the national authorities empowered by law or regulation of an *EEA State* to supervise *Solvency II undertakings* for the purposes of the *Solvency II Directive*, including the *PRA* and *FCA*.

[Note: Art. 13(10) of the *Solvency II Directive*]

Swiss general insurance company

has the meaning given in article 1(2) of the Financial Services and Markets Act 2000 (Variation of Threshold Conditions) Order 2001 (SI 2001/2507).

Swiss general insurer

means a *Swiss general insurance company* which has a *Part 4A permission* to effect contracts of insurance or carry out contracts of insurance of a kind which is subject to the *Swiss Treaty Agreement*.

Swiss Treaty Agreement

means the agreement of 10 October 1989 between the European Economic Community and the Swiss Confederation on direct insurance other than life

insurance, approved on behalf of the European Economic Community by the Council Decision of 20 June 1991 (No 91/370/EEC).

syndicate assets

means the assets managed by or at the direction of a *managing agent* in respect of *insurance business* carried on through a *syndicate* and overseas business regulatory deposits funded from those assets.

syndicate year

means a year of account of a *syndicate*.

technical provisions

means the technical provisions established in accordance with Technical Provisions 2.1.

third country branch

means a *third country insurance branch* or a *third country pure reinsurance branch*.

third country branch undertaking

means:

- (1) a *third country insurance undertaking* that has a *third country insurance branch*; or
- (2) a *third country insurance undertaking* or *third country reinsurance undertaking* that has a *third country pure reinsurance branch*.

third country insurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking* that has a *permission to effect contracts of insurance* and *carry out contracts of insurance* (except an *undertaking* which pursues only the business of *reinsurance* in the *UK*).

[Note: Art. 162(3) of the Solvency II Directive]

third country insurance undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as an insurance undertaking in accordance with Article 14 of the *Solvency II Directive* if its head office was situated in the *EEA*.

[Note: Art. 13(3) of the Solvency II Directive]

third country pure reinsurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking* or *third country reinsurance undertaking*, that has a *permission to effect contracts of insurance* and *carry out contracts of insurance* and which pursues only the business of *reinsurance* in the *UK*.

[Note: Art. 162(3) of the Solvency II Directive]

third country reinsurance undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as a *reinsurance undertaking* in accordance with Article 14 of the *Solvency II Directive* if its head office were situated in the *EEA*.

[Note: Art. 13(6) of the Solvency II Directive]

third country undertaking EEA branch

means a permanent presence of a *third country insurance undertaking* in an *EEA State* except the *UK*, which has received authorisation in accordance with Article 162 of the *Solvency II Directive*.

[Note: Art. 162(3) of the Solvency II Directive]

Tier 1 own funds

means an item of *basic own funds* that satisfies the conditions in Own Funds 3.1.

Tier 2 basic own funds

means an item of *Tier 2 own funds* that is an item of *basic own funds*.

Tier 2 own funds

means an item of *own funds* that satisfies the conditions in Own Funds 3.2.

Tier 3 own funds

means an item of *own funds* referred to in Own Funds 3.3.

transitional deduction

means the deduction from *technical provisions* applied in accordance with Transitional Measures 11.1.

UK-deposit insurer

means a *third country branch undertaking* that has made a deposit in the *UK* under Article 162(2)(e) of the *Solvency II Directive* in accordance with Article 167 of the *Solvency II Directive*.

UK Solvency II firm

has the meaning given in Insurance General Application 2.

undertaking specific parameters

means, for the purposes of determining the *SCR* using the *standard formula*, the replacement of a subset of parameters used in the life *underwriting risk* module, non-life *underwriting risk* module or health *underwriting risk* module with parameters specific to a *firm*.

underwriting member

means a *person* admitted to the *Society* as an underwriting member.

underwriting risk

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

[Note: Art. 13(30) of the Solvency II Directive]

volatility adjustment

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

- (1) the *Solvency II Regulations* adopted under Article 86(1)(j) of the *Solvency II Directive*; and
- (2) any technical information made by *EIOPA* under Article 77e(1)(c) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

waiver

means a direction waiving or modifying a rule, given by the *PRA* under section 138A of *FSMA*.

with-profits fund

means the business of the *firm*, or a particular part of the business of the *firm*, in the profits of which certain *with-profits policies* are eligible to participate through discretionary distributions under such policies and the assets of which comprise the items set out in (1) to (6) less the outgoings in (7) and (8) (including the items and outgoings relating to both current and past business):

- (1) *premiums* and other receivables in respect of *with-profits policies*;
- (2) other receipts of the *firm's with-profits insurance business*, including tax receipts;
- (3) amounts which have been provided by the *firm* to facilitate the carrying on of its *with-profits insurance business* (other than *excluded assets*);
- (4) all income and capital receipts in respect of the items in (1) to (3);
- (5) assets into which the items in (1) to (4) have been converted, including assets representing investment in *non-profit insurance business*; and
- (6) *premiums*, receivables, other receipts, income and capital receipts from *non-profit insurance business* falling within (5) or otherwise written for the benefit, in whole or in part, of the *firm's with-profits insurance business*;

outgoings:

- (7) outgoings in respect of the *firm's with-profits insurance business* permitted in accordance with any relevant provision of the *FCA Handbook* or any other applicable regulatory requirement and, to the extent that incoming items have been included in (6), *non-profit insurance business*; and

- (8) transfers permitted in accordance with any relevant provision of the *FCA Handbook* or any other applicable regulatory requirement;

and, where so required by COBS 20.1A.2R of the *FCA Handbook*, each distinct part of a *firm's with-profits fund* identified in accordance with that rule shall constitute a separate *with-profits fund*.

with-profits insurance business

means the business of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *with-profits policies*.

with-profits policy

means a *contract of long-term insurance* which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the *firm's* business or from a particular part of the *firm's* business.

with-profits policy liabilities

- (1) (for a *UK Solvency II firm*) means, in relation to a *with-profits fund*, the value of liabilities attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such *policies*) set out in, and calculated on the basis prescribed by Surplus Funds 3.3 or, if applicable, Surplus Funds 3.4 and (in either case) having also made adequate provisions for amounts representing *future policy-related liabilities*;
- (2) (for a *firm* other than a *UK Solvency II firm*) means, in relation to a *with-profits fund*, the value of *mathematical reserves* attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such *policies*) determined in accordance with the rules in INSPRU 1.2 of the *PRA Handbook*.

Annex B

In this Annex, underlining indicates new text and striking through indicated deleted text.

Amend the following definitions of the Glossary Part of the *PRA* Rulebook as shown:

insurance undertaking

means an ~~undertaking, whether or not an insurer, which carries on insurance business.~~ (except for an *ISPV*) or a member, that carries on insurance business, whether or not an insurer.

insurance special purpose vehicle

means an *ISPV*. ~~undertaking, other than an insurance undertaking or reinsurance undertaking which has received an official authorisation in accordance with Article 6 of the First Non-Life Directive, Article 4 of the Consolidated Life Directive or Article 3 of the Reinsurance Directive:~~

- (1) ~~which assumes risks from such insurance undertakings or reinsurance undertakings; and~~
- (2) ~~which fully funds its exposures to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the undertaking's reinsurance obligations.~~

insurer

means a firm with permission to effect contracts of insurance or carry out contracts of insurance (other than an *UK ISPV* *ISPV*).

market risk

- (1) (except in the Solvency II Firms Sector of the *PRA* Rulebook) means the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates.
- (2) (in the Solvency II Firms Sector of the *PRA* Rulebook) means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

[Note: Art. 13(31) of the Solvency II Directive]

UK ISPV

means an ~~insurance special purpose vehicle~~ *ISPV* with a Part 4A permission to effect contracts of insurance or carry out contracts of insurance.