Bank of England

Prudential Regulation Authority

---

# WRITTEN NOTICE

## Loss Absorbing Capacity of Deferred Taxes ("LACDT") Modification by Consent

---

To: **Name of firm (FRN XXXXXX)**
**Name of firm (FRN XXXXXX)**

**(the "firm" or "the firms")**

Of: Firm Address

Ref: INTACT reference number

Date: Date of issuance

## ACTION

1. On the basis of the information in Annex 1, the Prudential Regulation Authority ("PRA") has decided to grant the firm permission under s.138BA(2)(b) of the Financial Services and Markets Act 2000 (the "Act") to apply the rules listed in the first column of the table below with the modifications shown in the second column (the "LACDT Permission").

| **Rule** | **Modification** (new text is underlined and deleted text is struck through) |
|---|---|
| Solvency Capital Requirement – Standard Formula | 6.1 The adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes as referred to in 2.1(3) must:<br>…<br>(3) represent the sum of: |

| | |
|---|---|
| Part of the PRA Rulebook<br><br>6.1 | (a) the adjustment for the loss-absorbing capacity of *technical provisions* calculated in accordance with 6.3; and<br><br>(b) the adjustment for the loss-absorbing capacity of deferred taxes calculated in accordance with 6.4~~ and, if applicable, 6.5~~. |
| Solvency Capital Requirement – Standard Formula Part of the PRA Rulebook<br><br>6.4 | …<br><br>(2) For the purposes of (1), deferred taxes must be valued in accordance with Valuation 11.1 and 11.2, without prejudice to (3)~~ and 6.5~~.<br><br>(3) Where the loss referred to in (1) would result in an increase in the amount of deferred tax assets, a *firm* must not utilise that increase for the purposes of the adjustment referred to in (1) unless all of the following requirements are met:<br><br>(a) it is probable that future taxable profit will be available against which that increase can be utilised;<br><br>(b) the *firm* has determined that the requirement in (a) is met based on an assessment that:<br><br>(i) takes account of all of the matters referred to in (3B); and<br><br>(ii) uses assumptions that comply with the requirements in (3C);<br><br>(c) the amount of the increase utilised must not exceed 5% of the instantaneous loss referred to in (1);<br><br>(d) the *firm's* ratio of *eligible own funds* to its *SCR* is equal to or greater than 175%; and<br><br>(e) the *firm* has documentary evidence explaining how (a) to (d) are met and can provide that evidence to the *PRA*, if the *PRA* requests it.<br><br>(3A) For the purpose of (3)(d), the ratio is as most recently reported by the *firm* in either:<br><br>(a) R0620 C0010 of template S.23.01.01 of Annex I of Commission Implementing Regulation (EU) 2015/2450, if the ratio was most recently reported on or before 30 December 2024; or<br><br>(b) in R0620 C0010 of template IR.23.01.01 of Reporting 9, if the ratio was most recently reported on or after 31 December 2024,<br><br>in each case, in accordance with the applicable reporting requirements.<br><br>(3B) The relevant matters for the purpose of (3)(b)(i) are:<br><br>(a) any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits;<br><br>(b) the magnitude of the loss referred to in (1) and its impact on the *firm's* current and future financial situation and on insurance product pricing, market profitability, insurance demand, *reinsurance* coverage and all other relevant macro-economic variables; and<br><br>(c) the increased uncertainty in future profit following the loss referred to in (1), as well as the increasing degree of uncertainty relating to |

| | |
|---|---|
| | future taxable profit following that loss, as the projection horizon becomes longer.<br><br>(3C) The relevant requirements for the purpose of (3)(b)(ii) are:<br>(a) a *firm* must not assume new business sales in excess of those projected for the purposes of the *firm's* business planning;<br>(b) a *firm* must not assume new business sales after the end of the *firm's* business planning horizon and, for this purpose, a *firm's* business planning horizon must not exceed five years;<br>(c) the rates of return on the *firm's* investments following the loss referred to in (1) must be assumed to be equal to the implicit returns of the forward rates derived from the *relevant risk-free interest rate term structure* obtained after that loss;<br>(d) where a *firm* sets a projection horizon for profits from new business that is longer than its business planning horizon, it must:<br>(i) set a finite projection horizon:<br>(ii) apply appropriate haircuts to the profits from new business projected beyond the business planning horizon;<br>(iii) assume that such haircuts increase the further into the future the profits are projected; and<br>(e) a *firm* must not apply assumptions that are more favourable than those used for valuation and utilisation of deferred tax assets in accordance with Valuation 11.<br>… |
| Solvency Capital Requirement – Standard Formula Part of the PRA Rulebook<br><br>6.5 | 6.5 ~~(1) For a transitional period ending on 30 December 2025, where the loss referred to in 6.4(1) would result in an increase in the amount of deferred tax assets, a *firm* may utilise that increase for the purposes of calculating the adjustment referred to in 6.4(1), if all of the following requirements are met:~~<br>~~(a) it is probable that future taxable profit will be available against which that increase can be utilised;~~<br>~~(b) the *firm* has determined that the requirement in (a) is met based on an assessment that:~~<br>~~(i) takes account of all of the matters referred to in (2); and~~<br>~~(ii) uses assumptions that comply with the requirements in (3);~~<br>~~(c) the *firm* has documentary evidence explaining how the requirements in (a) and (b) are met and can provide that evidence to the *PRA*, if the *PRA* requests it; and~~<br>~~(d) the *firm* has given the *PRA* advance notice in writing that it proposes to utilise an increase in deferred tax assets in accordance with this rule.~~<br>~~(2) The relevant matters for the purpose of (1)(b)(i) are:~~<br>~~(a) any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits;~~<br>~~(b) the magnitude of the loss referred to in 6.4(1) and its impact on the *firm's* current and future financial situation and on~~ |

| | |
|---|---|
| | ~~insurance product pricing, market profitability, insurance demand, *reinsurance* coverage and all other relevant macro-economic variables; and~~<br><br>~~(c) the increased uncertainty in future profit following the loss referred to in 6.4(1), as well as the increasing degree of uncertainty relating to future taxable profit following that loss, as the projection horizon becomes longer.~~<br><br>~~(3) The relevant requirements for the purpose of (1)(b)(ii) are:~~<br><br>~~(a) a *firm* must not assume new business sales in excess of those projected for the purposes of the *firm's* business planning;~~<br><br>~~(b) a *firm* must not assume new business sales after the end of the *firm's* business planning horizon and, for this purpose, a *firm's* business planning horizon must not exceed five years;~~<br><br>~~(c) the rates of return on the *firm's* investments following the loss referred to in 6.4(1) must be assumed to be equal to the implicit returns of the forward rates derived from the *relevant risk-free interest rate term structure* obtained after that loss, unless the *firm* is able to demonstrate that returns in excess of those implicit returns are likely;~~<br><br>~~(d) where a *firm* sets a projection horizon for profits from new business that is longer than its business planning horizon, it must:~~<br><br>~~(i) set a finite projection horizon:~~<br><br>~~(ii) apply appropriate haircuts to the profits from new business projected beyond the business planning horizon;~~<br><br>~~(iii) assume that such haircuts increase the further into the future the profits are projected; and~~<br><br>~~(e) a *firm* must not apply assumptions that are more favourable than those used for valuation and utilisation of deferred tax assets in accordance with Valuation 11.~~ [Deleted] |

3. The circumstances that may lead the PRA to consider revoking or varying this LACDT Permission include the firm ceasing to comply with the requirements of the Solvency Capital Requirement – Standard Formula Part of the PRA Rulebook (as modified in accordance with this LACDT Permission).

4. Interpretative provisions (including definitions) of the PRA Rulebook apply to this LACDT Permission in the same way they apply to the PRA Rulebook.

## Effective Date

5. This permission takes effect on [date].

## Decision-Maker

6. The decision which gave rise to the obligation to give this Notice was made by [insert].

## Publication

7. [Details of this LACDT Permission will be published on the Financial Services Register.]

## PRA contacts

8. For more information concerning this matter generally, the [firm] should contact its usual supervisory contact.

**Decision Maker**
**Title**
**For and on behalf of The Prudential Regulation Authority**

Annex 1

[Reference the firm's application and date]