# Solvency II

## Supplementary information for permission to utilise an increase in Deferred Tax Assets in the calculation of the Loss Absorbing Capacity of Deferred Taxes (LACDT).

Firm name Click or tap here to enter text.

Firm reference number Click or tap here to enter text.

Date of application Click or tap to enter a date.

Firms applying to the Prudential Regulation Authority (PRA) to modify rule 6.4(3) of the Solvency Capital Requirements – Standard Formula Part of the PRA Rulebook (and related consequential rule modifications) should submit the information requested below, and any additional supporting documentation. Such a permission will allow firms to recognise an increase in deferred tax assets resulting from the Gross SCR Scenario in its calculation of the adjustment for LACDT, where it is probable that future taxable profit will be available against which the increase can be utilised.

Firms should submit the information requested below with the section 138BA permission application form and other documentary evidence to [PRA-Waivers@bankofenglan](mailto:PRA-Waivers@bankofenglan)d.co.uk, copying in its usual PRA supervisory contact.

Firms should refer to chapter 4 of the Statement of Policy (SoP) - Solvency II: The PRA’s approach to Standard Formula adaptations.[[1]](#footnote-2)

**Modification by Consent (MbC) or Full Application**

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| **Is the application for an MbC or a Full Application? Please tick as appropriate:** |
| **MbC**  **Full Application**  *If you selected “MbC”, please provide the additional information required on page 3.*  *If you selected “Full Application,” please provide the additional information required on pages 4-10. The information provided in those pages should demonstrate to the satisfaction of the PRA that it is probable that future taxable profit will be available.[[2]](#footnote-3)* |

**Criteria for MbC**

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| 1. **Please confirm that your firm’s solvency capital requirement (SCR) coverage ratio is no less than 175% at the date you last reported this figure to the PRA.** |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Do you expect that your firm’s ratio of eligible own funds to SCR as reported at R0620 C0010 of IR.23.01.01 will be no less than 175% in the next submission?** |
| Where relevant, please provide references to any supporting documentation. |

**Information to support a Full Application**

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| 1. **Please outline your business plan assumptions in a post-stress scenario, ensuring that:**  * *new business sales projections do not exceed those projected for your business planning; and* * *new business sales are not assumed beyond the horizon of your business plan or a maximum of five years.* |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Please outline your proposed investment return assumptions.**  * *If your assumed rate of return on investments following the Gross SCR Scenario exceed the implicit returns of the forward rates derived from the relevant risk-free interest rate term structure, please provide credible evidence to support those assumptions.* |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Please outline your proposed projection horizon for recognising profits from new business.**  * *If the projection horizon is longer than that of your business plan, please confirm that the projection horizon is finite, stating any haircuts that are applied to account for increasing uncertainty.* |
| Where relevant, please provide references to any supporting documentation. |

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| **4.** **Confirmation of assumptions relating to Deferred Tax Assets.**   * *Please provide documentation to demonstrate that your firm does not propose to set assumptions that are more favourable than those that apply to the valuation and utilization of deferred tax assets in accordance with Chapter 11 of the Valuation Part of the PRA Rulebook.* |
| If applicable, include references to any supporting documentation. |

**Additional Considerations for Full Application**

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| **5.** **Legal and Regulatory Requirements**:   * *Please provide documentation regarding your firm’s consideration of any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or unused tax credits.* |
| Where relevant, please provide references to any supporting documentation. |

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| **6.** **Gross SCR Scenario impact**:   * *How does your firm assess the magnitude and nature of the Gross SCR Scenario?* * *What impact does this have on the current and future financial situation relating to insurance product pricing, market profitability, insurance demand, reinsurance coverage, and all other relevant macro-economic variables?* |
| Where relevant, please provide references to any supporting documentation. |

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| **7.** **Uncertainty in Future Profit**:   * *How does your firm propose to account for the increased uncertainty in future profits following the Gross SCR Scenario?* * *How does the degree of uncertainty relating to future taxable profit following the Gross SCR Scenario change as the projection horizon increases in length?* |
| Where relevant, please provide references to any supporting documentation. |

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| **8. Future Management Actions:**  *Please describe any relevant future management actions that your firm assumes following the Gross SCR Scenario.*   * *Additionally, explain how your firm complies with the provisions set out in Technical Provisions – Further Requirements 8.* |
| Where relevant, please provide references to any supporting documentation. |

**Supplementary information to Assist the PRA**

The information in this section will assist the PRA in assessing a firm’s application for s138BA permission for LACDT.

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| 1. **Explain how your firm has ensured compliance with the criteria set out in paragraph 4.12 and taken into account the factors in paragraph 4.13 of the SoP – The PRA’s approach to Standard Formula Adaptations (the ‘SF SoP’).** |
| Where relevant, please provide references to any supporting documentation. |

In addition to compliance with the criteria and factors set out in paragraphs 4.12 and 4.13 of the SF SoP, the PRA may also consider the following factors where relevant. Please provide evidence where you consider the factors below are appropriate to your application:

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|  | **Factors Relevant** | **Evidence Provided** |
| 1. | The risk profile of the firm. |  |
| 2. | The firm’s governance over the projection of future taxable profit and the validation of the results. |  |
| 3. | The sensitivity of the firm’s regulatory solvency position to the application. |  |

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| 1. **Please provide documentation on how your firm’s SCR, after utilizing an increase in deferred tax assets resulting from the Gross SCR Scenario, is consistent with the confidence level specified in rule 3.4 in the Solvency Capital Requirement – General Provisions Part of the PRA Rulebook.** |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Please provide any assessment performed by your firm’s risk management or actuarial function regarding the projection of future taxable profits, in accordance with rule 3.1A(8) of the Conditions Governing Business Part of the PRA Rulebook.** |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Please provide evidence on how your firm has complied with relevant EIOPA Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes.[[3]](#footnote-4)** |
| Where relevant, please provide references to any supporting documentation. |

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| 1. **Please include any additional supporting evidence that is relevant, for example:**  * history of actual versus forecast profits; * most recent cashflow projections used for the purpose of the calculation. |
| Where relevant, please provide references to any supporting documentation. |

1. <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/november/solvency-ii-approach-to-standard-forumla-adaptations>-sop [↑](#footnote-ref-2)
2. Although the MbC option does not require completion of pages 4-10 of this form, you should be able to demonstrate, on request, to the satisfaction of the PRA that probable future taxable profits will be available. [↑](#footnote-ref-3)
3. [Guidelines on loss-absorbing capacity of technical provisions and deferred taxes (bankofengland.co.uk)](https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-loss-absorbing-capacity-of-tp-deferred-taxes.pdf) [↑](#footnote-ref-4)