

Bank of England PRA

Summary: PRA-Industry Virtual Roundtable to discuss CP15/24 – Proposed changes to the UK Insurance Special Purpose Vehicles (UK ISPV) regulatory framework

22 January 2025, 14:00 – 16:00, MS Teams

Agenda

Item 1: Context and Introduction

Item 2: Questions and Answers

Item 3: Next Steps

Summary of meeting:

The purpose of the roundtable was to provide stakeholders with an opportunity to voice any concerns regarding the proposals in [CP15/24](#) and ask any clarificatory questions arising from the proposals or anything else related to the UK ISPV regulatory framework. The meeting was conducted under the Chatham House Rule and was attended by over 40 participants.

The PRA informed attendees that any roundtable discussions would not substitute the requirement for formal, written responses via the official mailbox CP15_24@bankofengland.co.uk by 14 February 2025.

The PRA representatives shared prepared slides whose purpose was to structure the question-and-answer session according to themes within the CP:

- Chapter 2: Proposed structural changes to the UK ISPV regime
- Chapter 3: Proposed changes to the authorisation process and use of UK ISPVs
- Chapter 4: Proposed changes to expectations of (re)insurers ceding to SPVs

- Chapter 5: Proposed changes to the Senior Managers and Certification Regime
- Updated application forms and new Statement of Policy replacing SS8/17

The questions raised by attendees during the meeting and the PRA responses have been grouped according to those themes and chapters below:

Chapter 2: Proposed structural changes to the UK ISPV regime

1. Limited Recourse Clauses (LRC)

- a) A request for clarity on paragraph 2.18 of CP15/24, specifically the purpose of the following statement: *'The PRA would not expect that such a clause would be relied on in order to comply with the fully funded at all times (FFAAT) requirement at the inception of a risk transformation transaction'*.
 - The PRA clarified that this was to remove any circularity of application of the preceding statement in paragraph 2.18: *'The PRA proposes to clarify that it recognises that such clauses can be used to comply with the FFAAT requirement on an ongoing basis, subject to certain criteria being met.'*
 - An LRC cannot be used as a reason to not fund a UK ISPV upfront.
 - If unclear attendees should elaborate or provide specific examples in the written feedback
- b) A request for additional guidance on what constitutes suitable sound risk management, specifically regarding the investment strategy, and not using LRC as a substitute for sound risk management and sound investment strategies.
 - The PRA clarified that it expects no changes with regards to investment strategies as a consequence of the proposals and that limited recourse cannot be used to limit investment risk.
 - Investment strategies were assessed on a case-by-case basis, there was no strict list/definition for what an investment strategy should look like.

2. Co-mingling

- a) A request to clarify the interpretation of 'separation' – what needs to be separated and to what degree?
 - The PRA clarified that it expects assets to be separated according to the risks they cover.
 - However, it emphasised its desire for attendees to consider and provide written responses to the PRA's proposals on no co-mingling, including any examples (eg legal or commercial) of how they may apply and any concerns they may raise for the industry in applying this

restriction. Even if accepting the general principle, stakeholders were encouraged to consider if any exceptions should be made in specific instances, and to include those in their responses.

3. Regulatory arbitrage

- a) A query if the PRA considered the regulatory requirements of international jurisdictions when setting out the proposals in CP15/24.
 - The PRA clarified that, as part of its overall policy making approach, it did consider other jurisdictions, but that it always considers its primary and secondary objectives first when making any proposals to ensure these are adhered to. This is the PRA's primary consideration for making any proposals.
- b) A query about domestic regulatory arbitrage and regulations for non-insurers such as pension funds, and of overall policyholder protection.
 - The PRA clarified that the focus of CP15/24 was on insurers only - pension funds were not within the PRA's perimeter.
 - The expectations in Chapter 4 are not rules and so exceptions can be made if applicants demonstrate that they meet the PRA requirements. However, the requirements this expectation relates to set a high bar, and the expectation remains that any capital reduction should match the associated risk reduction.
 - The comparison to pension fund regulation did not seem directly relevant due to various differing factors (eg Financial Service Compensation Scheme (FSCS) for Insurers and the Pension Protection Fund (PPF) for pension funds; differences in statutory capital requirements for insurers and other differences such as the Matching Adjustment approvals for insurers etc.
- c) A comment was made about multiple cedants within a group and how a UK cedant may face higher regulatory requirements than other cedants in the same group based in different jurisdictions.
 - The PRA commented that in principle, the expectations set out in the CP were intended to be no more onerous than for other risk transfer arrangements such as traditional reinsurance. The PRA also commented that it has no locus standi on the regulatory requirements faced by other cedants, in the same group, in other jurisdictions.

Chapter 4: Proposed changes to expectations of (re)insurers ceding to SPVs

4. Long-term insurance risks

- a) A query about whether the restrictions on the transfer of annuities and similar risks extend to all non-general insurance risks.

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- The PRA clarified that the restrictions were specifically to annuities and similar risks only (i.e. similar long-term risks subject to material market and credit risk).
 - There may be other long-term life insurance risks that may be suitable for a SPV.

No questions were raised for any of the other themes or chapters in the CP. Also, no questions were raised about the Statement of Policy or the updated ISPV application forms.

The PRA informed attendees that the associated Policy Statement to this consultation is due to be published mid-2025, with an expected implementation date also mid-2025.

The PRA reminded attendees that this session does not substitute the requirement for formal, written responses by 14 February 2025, and then closed the meeting.