Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

TITLE I

[[X1]VALUATION AND RISK-BASED CAPITAL REQUIREMENTS (PILLAR I), ENHANCED GOVERNANCE (PILLAR II) AND INCREASED TRANSPARENCY (PILLAR III)]

CHAPTER II

VALUATION OF ASSETS AND LIABILITIES

Article 7

Valuation assumptions

Insurance and reinsurance undertakings shall value assets and liabilities based on the assumption that the undertaking will pursue its business as a going concern.

Article 8

Scope

Articles 9 to 16 shall apply to the recognition and valuation of assets and liabilities, other than technical provisions.

Article 9

Valuation methodology — general principles

1 Insurance and reinsurance undertakings shall recognise assets and liabilities in conformity with the **[**[F1]UK-adopted international accounting standards**]**.

2 Insurance and reinsurance undertakings shall value assets and liabilities in accordance with **[**[F2]UK-adopted international accounting standards**]** provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC. Where those standards allow for the use of more than one valuation method, insurance and reinsurance undertakings shall only use valuation methods that are consistent with Article 75 of Directive 2009/138/EC.

3 Where the valuation methods included in **[**[F3]UK-adopted international accounting standards**]** are not consistent either temporarily or permanently with the valuation approach set out in Article 75 of Directive 2009/138/EC, insurance and reinsurance undertakings shall use other valuation methods that are deemed to be consistent with Article 75 of Directive 2009/138/EC.

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4 By way of derogation from paragraphs 1 and 2, and in particular by respecting the principle of proportionality laid down in paragraphs 3 and 4 of Article 29 of Directive 2009/138/EC, insurance and reinsurance undertakings may recognise and value an asset or a liability based on the valuation method it uses for preparing its annual or consolidated financial statements provided that:

a the valuation method is consistent with Article 75 of Directive 2009/138/EC;

b the valuation method is proportionate with respect to the nature, scale and complexity of the risks inherent in the business of the undertaking;

c the undertaking does not value that asset or liability using **[**[F4]UK-adopted international accounting standards**]** in its financial statements;

d valuing assets and liabilities using international accounting standards would impose costs on the undertaking that would be disproportionate with respect to the total administrative expenses.

5 Insurance and reinsurance undertakings shall value individual assets separately.

6 Insurance and reinsurance undertakings shall value individual liabilities separately.

Textual Amendments

F1 Words in Art. 9(1) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(5)(a)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(c)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

F2 Words in Art. 9(2) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(5)(b)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(c)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

F3 Words in Art. 9(3) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(5)(a)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(c)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

F4 Words in Art. 9(4) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(5)(a)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(c)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

Article 10

Valuation methodology — valuation hierarchy

1 Insurance and reinsurance undertakings shall, when valuing assets and liabilities in accordance with Article 9 (1), (2) and (3), follow the valuation hierarchy set out in paragraphs 2 to 7, taking into account the characteristics of the asset or liability where market participants would take those characteristics into account when pricing the asset or liability at the valuation date, including the condition and location of the asset or liability and restrictions, if any, on the sale or use of the asset.

2 As the default valuation method insurance and reinsurance undertakings shall value assets and liabilities using quoted market prices in active markets for the same assets or liabilities.

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3 Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, insurance and reinsurance undertakings shall value assets and liabilities using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences. Those adjustments shall reflect factors specific to the asset or liability including all of the following:

a the condition or location of the asset or liability;

b the extent to which inputs relate to items that are comparable to the asset or liability; and

c the volume or level of activity in the markets within which the inputs are observed.

4 Insurance and reinsurance undertakings' use of quoted market prices shall be based on the criteria for active markets, as defined in **[**[F5]UK-adopted international accounting standards**]**.

5 Where the criteria referred to in paragraph 4 are not satisfied, insurance and reinsurance undertakings shall, unless otherwise provided in this Chapter, use alternative valuation methods.

6 When using alternative valuation methods, insurance and reinsurance undertakings shall rely as little as possible on undertaking-specific inputs and make maximum use of relevant market inputs including the following:

a quoted prices for identical or similar assets or liabilities in markets that are not active;

b inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;

c market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

All those markets inputs shall be adjusted for the factors referred to in paragraph 3.

To the extent that relevant observable inputs are not available including in circumstances where there is little, if any, market activity for the asset or liability at the valuation date, undertakings shall use unobservable inputs reflecting the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Where unobservable inputs are used, undertakings shall adjust undertaking-specific data if reasonable available information indicates that other market participants would use different data or there is something particular to the undertaking that is not available to other market participants.

When assessing the assumptions about risk referred to in this paragraph undertakings shall take into account the risk inherent in the specific valuation technique used to measure fair value and the risk inherent in the inputs of that valuation technique.

7 Undertakings shall use valuation techniques that are consistent with one or more of the following approaches when using alternative valuation methods:

a market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing.

b income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value shall reflect current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method;

c cost approach or current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset. From the perspective of a

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market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable quality adjusted for obsolescence.

Textual Amendments

F5 Words in Art. 10(4) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(6)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(d)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

Article 11

Recognition of contingent liabilities

1 Insurance and reinsurance undertakings shall recognise contingent liabilities, as defined in accordance with Article 9 of this Regulation, that are material, as liabilities.

2 Contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities.

Article 12

Valuation methods for goodwill and intangible assets

Insurance and reinsurance undertakings shall value the following assets at zero:

1. goodwill;

2. intangible assets other than goodwill, unless the intangible asset can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived in accordance with Article 10(2), in which case the asset shall be valued in accordance with Article 10.

Article 13

Valuation methods for related undertakings

1 For the purposes of valuing the assets of individual insurance and reinsurance undertakings, insurance and reinsurance undertakings shall value holdings in related undertakings, within the meaning of Article 212(1)(b) of Directive 2009/138/EC in accordance with the following hierarchy of methods:

a using the default valuation method set out in Article 10(2) of this Regulation;

b using the adjusted equity method referred to in paragraph 3 where valuation in accordance with point (a) is not possible;

c using either the valuation method set out in Article 10(3) of this Regulation or alternative valuation methods in accordance with Article 10(5) of this Regulation provided that all of the following conditions are fulfilled:

(i) neither valuation in accordance with point (a) nor point (b) is possible;

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(ii) the undertaking is not a subsidiary undertaking, as defined in Article 212(2) of Directive 2009/138/EC.

2 By way of derogation from paragraph 1, for the purposes of valuing the assets of individual insurance and reinsurance undertakings, insurance and reinsurance undertakings shall value holdings in the following undertakings at zero:

[[F6]a undertakings that are excluded from the scope of the group supervision under Article 214(2) of Directive 2009/138/EC;**]**

b undertakings that are deducted from the own funds eligible for the group solvency in accordance with **[**[F7]rule 10.6 of the Group Supervision part of the PRA Rulebook**]**.

3 The adjusted equity method referred to in point (b) of paragraph 1 shall require the participating undertaking to value its holdings in related undertakings based on the share of the excess of assets over liabilities of the related undertaking held by the participating undertaking.

[[F8]4 When calculating the excess of assets over liabilities for a related undertaking, the participating undertaking shall value the undertaking's individual assets and liabilities in accordance with:

a Article 75 of Directive 2009/138/EC, and

b if the related undertaking is:

i) required to calculate technical provisions in accordance with any national measures transposing Articles 76 to 85 of Directive 2009/138/EC, or

ii) a special purpose vehicle referred to in Article 211 of that Directive,

also in accordance with the technical provisions in Articles 76 to 85 of that Directive.**]**

5 When calculating the excess of assets over liabilities for related undertakings other than insurance or reinsurance undertakings, the participating undertaking may consider the equity method as prescribed in **[**[F9]UK-adopted international accounting standards**]** to be consistent with Articles 75 of Directive 2009/138/EC, where valuation of individual assets and liabilities in accordance with paragraph 4 is not practicable. In such cases, the participating undertaking shall deduct from the value of the related undertaking the value of goodwill and other intangible assets that would be valued at zero in accordance with Article 12(2) of this Regulation.

[[F6]6 Where the criteria referred to in Article 9(4) of this Regulation are satisfied, and where the use of the valuation methods referred to in points (a) and (b) of paragraph 1 is not possible, holdings in related undertakings may be valued based on the valuation method the insurance or reinsurance undertakings uses for preparing its annual or consolidated financial statements. In such cases, the participating undertaking shall deduct from the value of the related undertaking the value of goodwill and other intangible assets that would be valued at zero in accordance with Article 12(2) of this Regulation.**]**

Textual Amendments

F6 Substituted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).

F7 Words in Art. 13(2)(b) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(7)(a)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

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F8 Art. 13(4) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(7)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

F9 Words in Art. 13(5) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(7)(c)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(e)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

Article 14

Valuation methods for specific liabilities

1 Insurance and reinsurance undertakings shall value financial liabilities, as referred to in **[**[F10]UK-adopted international accounting standards**]**, in accordance with Article 9 of this Regulation upon initial recognition. There shall be no subsequent adjustment to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition.

2 Insurance and reinsurance undertakings shall value contingent liabilities that have been recognised in accordance with Article 11. The value of contingent liabilities shall be equal to the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure.

Textual Amendments

F10 Words in Art. 14(1) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(8)** (as amended by S.I. 2019/1390, regs. 1(4), **11(3)(f)**; S.I. 2020/1385, regs. 1(2), **54(2)**; and with savings in S.I. 2019/680, **reg. 11**); 2020 c. 1, Sch. 5 para. 1(1)

Article 15

Deferred taxes

1 Insurance and reinsurance undertakings shall recognise and value deferred taxes in relation to all assets and liabilities, including technical provisions, that are recognised for solvency or tax purposes in accordance with Article 9.

2 Notwithstanding paragraph 1, insurance and reinsurance undertakings shall value deferred taxes, other than deferred tax assets arising from the carryforward of unused tax credits and the carryforward of unused tax losses, on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Article 75 of Directive 2009/138/EC and in the case of technical provisions in accordance with Articles 76 to 85 of that Directive and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

3 Insurance and reinsurance undertaking shall only ascribe a positive value to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carryforward of unused tax losses or the carryforward of unused tax credits.

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Article 16

Exclusion of valuation methods

1 Insurance and reinsurance undertakings shall not value financial assets or financial liabilities at cost or amortized cost.

2 Insurance and reinsurance undertakings shall not apply valuation models that value at the lower of the carrying amount and fair value less costs to sell.

3 Insurance and reinsurance undertakings shall not value property, investment property, plant and equipment with cost models where the asset value is determined as cost less depreciation and impairment.

4 Insurance and reinsurance undertakings which are lessees in a financial lease or lessors shall comply with all of the following when valuing assets and liabilities in a lease arrangement:

a lease assets shall be valued at fair value;

b for the purposes of determining the present value of the minimum lease payments market consistent inputs shall be used and no subsequent adjustments to take account of the own credit standing of the undertaking shall be made;

c valuation at depreciated cost shall not be applied.

5 Insurance and reinsurance undertakings shall adjust the net realisable value for inventories by the estimated cost of completion and the estimated costs necessary to make the sale where those costs are material. Those costs shall be considered to be material where their non-inclusion could influence the decision-making or the judgement of the users of the balance sheet, including the supervisory authorities. Valuation at cost shall not be applied.

6 Insurance and reinsurance undertakings shall not value non-monetary grants at a nominal amount.

7 When valuing biological assets, insurance and reinsurance undertakings shall adjust the value by adding the estimated costs to sell if the estimated costs to sell are material.

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Changes and effects yet to be applied to :

- Regulation revoked by 2023 c. 29 Sch. 1 Pt. 3
- Recital 53 Sentence 1 replacement by EUR 2016/2283 Regulation

Changes and effects yet to be applied to the whole legislation item and associated provisions

- Art. 177(2)(b) words omitted by S.I. 2019/407 reg. 11(25)(a) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words omitted by S.I. 2019/407 reg. 11(25)(b)(ii) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words substituted by S.I. 2019/407 reg. 11(25)(b)(i) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(r) words substituted by S.I. 2019/407 reg. 11(25)(c) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(s) words substituted by S.I. 2019/407 reg. 11(25)(c) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(t) words substituted by S.I. 2019/407 reg. 11(25)(d) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(a) words substituted by S.I. 2019/407 reg. 11(25)(f) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(c) words substituted by S.I. 2019/407 reg. 11(25)(f) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)