
STATUTORY INSTRUMENTS

2015 No. 575

The Solvency 2 Regulations 2015

PART 4

Approvals

CHAPTER 2

Specific Approvals

Volatility adjustment

43.—(1) An insurance undertaking, reinsurance undertaking or third-country insurance undertaking may apply to the PRA for permission to apply a volatility adjustment to the relevant risk-free interest rate term structure in order to calculate the best estimate referred to in Article 77(2) of the Solvency 2 Directive.

(2) The PRA must approve an application made under paragraph (1) if the proposed application of the volatility adjustment would satisfy all the conditions specified in paragraph (4).

(3) The PRA must revoke an approval granted under paragraph (2) where the application of the volatility adjustment does not satisfy a condition specified in paragraph (4).

(4) The conditions referred to in paragraphs (2) and (3) are—

- (a) the volatility adjustment is applied correctly to the relevant risk-free interest rate term structure in order to calculate the best estimate;
- (b) the undertaking does not breach a relevant requirement as a result or consequence of applying the volatility adjustment;
- (c) the application of the volatility adjustment does not create an incentive for the undertaking to engage in pro-cyclical investment behaviour.

(5) In paragraph (4)(b), a “relevant requirement” is—

- (a) a requirement imposed by or under FSMA in pursuance of [^{F1}the United Kingdom law which implemented] the Solvency 2 Directive; or
- (b) a requirement of a directly applicable regulation made under the Solvency 2 Directive [^{F2}which forms part of retained EU law].

F1 Words in [reg. 43\(5\)\(a\)](#) inserted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/407), [regs. 1\(2\), 10\(7\)\(a\)](#) (as amended by S.I. 2020/1385, [regs. 1\(2\), 54\(2\)](#))

F2 Words in [reg. 43\(5\)\(b\)](#) inserted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/407), [regs. 1\(2\), 10\(7\)\(b\)](#) (as amended by S.I. 2020/1385, [regs. 1\(2\), 54\(2\)](#))

Changes to legislation: The Solvency 2 Regulations 2015, Section 43 is up to date with all changes known to be in force on or before 28 September 2023. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

Modifications etc. (not altering text)

- C1** Pt. 4 modified (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **12** (as amended by [S.I. 2020/1385](#), regs. 1(2), **54(2)** and [S.I. 2020/1301](#), regs. 1, 3, **Sch. para. 27(e)**)

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Changes and effects yet to be applied to :

- Regulations revoked by [2023 c. 29 Sch. 1 Pt. 2](#)