

**Prudential – Insurance Business Rulebook (PIN)**

\*In this attachment underlining indicates new text and striking through indicates deleted text.



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## 2.3 Management of particular risks

**2.3.1** An Insurer must develop, implement and maintain a risk management system to identify, assess, monitor, mitigate and control balance sheet risk, including but not limited to:

- (a) reserving risk;
- (b) investment risk (including risks associated with the use of derivatives);
- (c) underwriting risk;
- (d) claims management risk;
- (e) product design and pricing risk; ~~and~~
- (f) liquidity management risk; ~~and~~
- (g) Climate-Related Financial Risk.

### **Guidance**

GEN 3.6 contains additional requirements that apply to Authorised Persons in relation to the management of Climate-Related Financial Risks.

**2.3.2** An Insurer must develop, implement and maintain a risk management system to identify, assess, monitor, mitigate and control credit quality risk.

**2.3.3** An Insurer must develop, implement and maintain a risk management system to identify the non-financial and operational risks faced by the Insurer, including but not limited to:

- (a) technology risk (including processing risks);
- (b) reputational risk;
- (c) fraud and other fiduciary risks;
- (d) compliance risk;

- (e) outsourcing risk;
- (f) business continuity planning risk;
- (g) legal risk;
- (h) key person risk; and
- (i) Cyber Risk.

#### **Guidance**

GEN 3.5 contains additional requirements that apply to Authorised Persons in relation to Cyber Risk.

- 2.3.4** An Insurer must develop, implement and maintain a risk management system to identify, assess, monitor, mitigate and control reinsurance risk. Reinsurance risk refers to risks associated with the Insurer's use of reinsurance arrangements as cedant. Such risks include those in Rules 2.3.1, 2.3.2 and 2.3.3.

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- 2.3.6** An Insurer must develop, implement and maintain a risk management system which includes an explicit asset liability management ("ALM") policy, which must clearly specify the nature, role and extent of ALM activities and their relationship with any other relevant function or activity of the insurer including, but not limited to, product development, pricing functions and investment management.

#### **Guidance**

1. An Insurer's ALM policy should be appropriate taking into account the nature, scale and complexity of its ALM risks.
2. The ALM policy should include details as to how:
  - (a) the investment and liability strategies adopted by the Insurer allow for the interaction between assets and liabilities;

- (b) any correlations between assets and liabilities are taken into account;
- (c) the liability cash flows will be met by cash inflows; and
- (d) the valuations of assets and liabilities will change under an appropriate range of different scenarios.

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4.2.2 An Insurer must always have capital resources that are, in the opinion of its directors formed on reasonable assumptions, adequate for the conduct of its business, taking into consideration the size of the Insurer and the nature, mix and complexity of the risks it underwrites in its business.

#### **Guidance**

1. Where an Insurer effects Direct Long-Term Insurance contracts, Rule 4.2.2 implies that the Insurer must also be able to fund and service the claims and obligations arising out of its Long-Term Insurance Business in a manner which is sustainable over the long term.
2. To be able to demonstrate to the Regulator that the Insurer complies with Rule 4.2.2 on an ~~on-going~~ ongoing basis, the Regulator expects the Insurer to develop internal capital models to support the self- assessment of capital adequacy. Those internal capital models should include mechanisms to estimate in a realistic manner the impact on the Insurer's capital position of possible scenarios relevant to the Insurer's business. The results of scenario testing should be communicated to the appropriate levels of management within the Insurer. Insurers should be able to demonstrate to the Regulator that the Insurer has adequate capital resources to withstand external and internal shocks to which they may plausibly be exposed.

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**5.1.2** Subject to Rules 5.1.3, 5.1.4, ~~5.1.5~~ and 5.1.6, an Insurer must recognise and measure its assets and liabilities in accordance with ~~so many of~~ Rules 5.3, 5.4, 5.5 and 5.6 as ~~may~~ they apply to the Insurer.

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**5.1.5** ~~An Insurer may use approximate methods to measure an asset or a liability, where the result obtained by the use of that approximate method would not be materially different from the result obtained by applying a measurement method prescribed in this Chapter.~~

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**5.3.1** Except where this Chapter provides otherwise, the assets and liabilities of an Insurer must be recognised and measured in accordance with a basis of accounting set out in Rule 5.3.2.

#### **Guidance**

The exceptions provided in this Chapter relate to the following:

- a. specific Rules in respect of certain assets and liabilities, intended to achieve a regulatory objective not achieved by application of ~~either or both of the bases~~ basis of accounting set out in Rule 5.3.2;
- b. assets and liabilities that are not dealt with in ~~either or both of the bases~~ basis of accounting set out in Rule 5.3.2; and
- c. the overriding power of the Regulator, set out in Rule 5.1.6, to require an Insurer to adopt a particular measurement for a specific asset or liability.

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**5.3.2** The basis of accounting adopted by an Insurer for the purposes of Rule 5.3.1 must be:

- ~~(a) in the case of a Takaful Insurer, the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions; or~~

(b) ~~in any other case, the International Financial Reporting Standards (IFRS).~~

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**5.4.2** Premiums in respect of a group of direct insurance contracts or, facultative reinsurance contracts and non-proportional treaty reinsurance contracts entered into by an Insurer acting as insurer must, in accordance with IFRS 17, be treated as receivable from the date of entering into the Contract of Insurance.~~earliest of:~~

- (a) the beginning of the coverage period applicable to the group of contracts;
- (b) when the first payment from a policyholder in the group of contracts becomes due; or
- (c) when the group of contracts becomes onerous.

**5.4.3** ~~Premiums in respect of proportional treaty reinsurance contracts entered into by an Insurer as insurer must be treated as receivable in accordance with the pattern of the cedant entering into the underlying Contract of Insurance.~~

- (1) A group of reinsurance contracts held by an Insurer must be recognised as an asset or liability, as applicable, from the earlier of:
  - (a) the beginning of the coverage period of the group of reinsurance contracts that are held; or
  - (b) when the group of underlying insurance contracts becomes onerous.
- (2) Notwithstanding (1)(a), an Insurer must delay the recognition of a group of reinsurance contracts held by it that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts.

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**5.4.10** Where an Insurer is required to recognise a liability associated with the value of expected future payments, that liability must be ~~measured as the net present value of~~

~~those expected future payments, calculated in accordance with the appropriate measurement model determined under IFRS 17.~~

- 5.4.11** Where an Insurer is required to recognise an asset arising from expected future receipts, that asset must be ~~measured as the net present value of those expected future receipts, calculated in accordance with the appropriate measurement model determined under IFRS 17.~~

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## **5.5 Discount rates**

- 5.5.1** ~~The Regulator may specify actuarial principles to be used by an Insurer in measuring assets and liabilities:~~

An Insurer is required to use discount rates in accordance with IFRS 17.

- 5.5.2** ~~For the purposes of determining the net present value of expected future payments in accordance with Rule 5.4.10, an Insurer must use as a discount rate the gross redemption yield, as at the Solvency Reference Date, of a portfolio of AAA-Rated sovereign risk securities with a similar expected payment profile to the liability being measured:~~

An Insurer must disclose in its audited financial statements the discount rates it employed under Rule 5.5.1, as well as the methodology used to derive the discount rates.

- 5.5.3** ~~For the purposes of determining the net present value of expected future receipts in accordance with Rule 5.4.11, an Insurer must use as a discount rate the gross redemption yield, as at the Solvency Reference Date, of a portfolio of AAA-Rated sovereign risk securities with a similar expected payment profile to the asset being measured:~~

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## Guidance

1. ~~Where an Insurer's Insurance Business includes more than one Class of Business, the Insurer will normally be expected to establish payment profiles separately for each material Class of Business.~~

2. ~~Where the expected payment profile of assets or liabilities cannot be matched – for example, because the duration is too long – the Insurer should assume a discount rate regarded as consistent with the intention of this section.~~

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**5.6.2** Premiums in respect of a group of reinsurance contracts entered into by an Insurer acting as insurer must be treated as receivable from the ~~date on which they are due and receivable~~; earlier of:

(a) the beginning of the coverage period of the group of reinsurance contracts; or

(b) when the Insurer recognises the group of underlying contracts as onerous.

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**5.6.5** An Insurer must ~~treat as a liability the amount of Policy Benefits that are due for payment on or before the Solvency Reference Date~~ calculate insurance contract liabilities in accordance with the appropriate measurement model determined under IFRS 17.

**5.6.6** An Insurer must ~~treat as a liability the net present value of future Policy Benefits under policies that are in force as at the Solvency Reference Date, taking into account all prospective liabilities as determined by the policy conditions for each existing contract, and taking credit for premiums payable after the Solvency Reference Date.~~

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**5.6.7** In measuring the liability referred to in Rule 5.6.6, the Insurer must:

(a) ~~use actuarial principles;~~

- (b) ~~make proper provision for all liabilities on prudent assumptions that include appropriate margins for adverse deviation of the relevant factors; and~~
- (c) ~~assign a liability value greater than or equal to zero to each contract or to each homogeneous group of contracts;~~
- (d) ~~not make allowance for any future lapse, surrender, making paid-up or revival of a contract where such an allowance would result in a decrease in the liability in respect of that contract;~~
- (e) ~~take specifically into account:~~
  - (i) ~~all guaranteed Policy Benefits, including guaranteed surrender values;~~
  - (ii) ~~vested, declared or allotted bonuses or other forms of participation to which policy holders are already either collectively or individually contractually entitled;~~
  - (iii) ~~reasonable expectations of policyholders in respect of bonuses or other forms of participation, other than as set out in (ii);~~
  - (iv) ~~all options available to the policy holder under the terms of the contract;~~
  - (v) ~~discretionary charges and deductions from Policy Benefits, in so far as they do not exceed the reasonable expectations of policy holders;~~
  - (vi) ~~expenses, including commissions; and~~
  - (vii) ~~any rights under contracts of reinsurance in respect of Long-Term Insurance Business; and~~
- (f) ~~apply a discount rate determined with reference to the expected risk-adjusted yield on the assets allocated to cover the liability and investment of net receipts attributable to the policies. In arriving at the discount rate, prudent allowance must be made for the risk of adverse deviation in those expected yields.~~

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## Guidance

1. ~~Because of Rule 5.6.7(c), no policy may be treated as an asset in the valuation and policies must be valued individually, unless they form part of a homogeneous group of contracts. This means an Insurer may treat groups of homogeneous contracts together and not breach the requirements in that Rule provided that the valuation in respect of that group of homogeneous contracts does not collectively represent an asset. The onus is on the Insurer to demonstrate that the contracts represent a homogeneous group. In deciding whether to treat a group of contracts as homogeneous, an Insurer should consider whether the group would remain homogeneous under realistic scenarios to which the Insurer could be exposed.~~
2. ~~Rule 5.6.7(d) prevents an Insurer from reducing the valuation by taking into account future lapses and surrenders, or future action by the policyholder to make the policy paid-up or to 'revive' a paid-up policy where the product features permit such action. Since persistency may be volatile, it is considered imprudent for an Insurer to rely upon 'lapse support' in its valuation. However, voluntary discontinuance of policies may increase a valuation as well as reduce it (for example, a guaranteed surrender value may exceed the actuarially-calculated liability for part of the life of the contract). In performing the valuation, the insurer should therefore make prudent allowance for the effect of lapses, surrenders, and related policyholder actions where these increase the valuation. The impact may vary over the life of a particular contract; for example, lapse at one stage in the contract life may represent a cost to the Insurer, whereas at another, it may represent a benefit.~~
3. ~~Rule 5.6.7(e)(iii) requires an Insurer to take into account bonuses not yet allocated in determining the liability for capital adequacy purposes. In essence, this Rule prevents an Insurer from counting as capital any surplus on participating contracts that is expected, under the terms of the contracts concerned, to accrue to the policyholders in the future. Therefore, although attribution of surplus on participating contracts is discretionary, the Insurer must make a reasonable estimate, taking into account the perceived and reasonable expectations of policyholders. Assumptions made in reaching this estimate (for example, on future investment income) should be consistent with those made for other purposes of the valuation. However, the~~

~~recognition of future bonuses or other forms of participation in this liability does not affect the determination of surplus for other purposes, such as allocation of bonuses of surplus prior to allocation of those bonuses.~~

~~4. For the purposes of Rule 5.6.7(f), an Insurer should ensure that yields used to determine the discount rate are adjusted to take account of the risk that yields will decrease. High yields that represent compensation for risks such as credit or currency risk should be adjusted down to account for those elements of the yield.~~

**5.6.8** The Regulator may specify actuarial principles to be followed by Insurers in measuring the liability referred to in Rule 5.6.6.

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**5.6.9** Rule 5.6.6 does not require an Insurer to obtain a valuation by an Actuary of the liability referred to in that Rule, at a Solvency Reference Date other than the Insurer's annual reporting date.

[Deleted]

### **Guidance**

~~An Insurer is also required to provide a periodic report on its Long-Term Insurance Liabilities, prepared by an Actuary, including an actuarial investigation of the financial condition of its Long-Term Insurance Business. The relevant provisions are set out in Rule 7.3.~~

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**7.3.6** This report must provide details of, in respect of each Class of Business:

(a) the product range;

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## Guidance

1. The assumptions and comparisons referred to in Rule 7.3.6(d) and (f) should cover all significant components of the valuation, including consideration of persistency, mortality, expense levels, and investment returns.
2. Where the business of the Insurer includes participating Long Term Insurance Business, it will be necessary for the determination of surplus at Rule 7.3.6(h) for the decision on allocation of bonuses to be dealt separately from the surplus for the purposes of determining the capital adequacy of the Fund. For the former of these two purposes, the Insurer is identifying the pool, commonly known as surplus, that is available for allocation as bonuses (or equivalent) on participating policies. The allocation then reduces the surplus (by convention, this is treated as occurring at the reporting date). By contrast, for the latter of the two purposes, that portion of the remaining surplus that is expected to be allocated eventually to policyholders is also treated as a liability (in Rule 5.6.75), on the grounds that it is not available to absorb losses of the Insurer. For that purpose, declaration of bonuses merely represents a transfer from one recognised liability to another.

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**10.1.4** An Authorised ISPV must develop, implement and maintain a risk management system to address all material risks to which it is subject, in accordance with section 2.2. In particular, it must have regard to the Guidance on managing investment risk set out in Rule A2.6. At a minimum, the risk management and internal controls of an Authorised ISPV must ensure that:

- (a) investment restrictions are not breached;
- (b) interest payments, dividends, expenses and taxes are properly accounted for;
- (c) movements above established thresholds in assets and collateral accounts are reported;
- (d) assets are legally existent and technically identifiable; and

(e) liabilities can be determined on a timely and accurate basis and obligations satisfied in accordance with the underlying contracts.

**10.1.5** An Authorised ISPV must include in each of its contracts of reinsurance terms which ensure that its aggregate maximum liability at any time under those contracts of reinsurance does not exceed the amount of its assets at that time.

**10.1.6** An Authorised ISPV must ensure that under the terms of any debt issuance or other financing arrangements used to fund its reinsurance liabilities the rights of the providers of that debt or other financing are fully subordinated to the claims of creditors under its contracts of reinsurance. Investors in an Authorised ISPV must not have recourse to a ceding Insurer in the event of an economic loss.

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## **A2.14 Reinsurance risk**

### **Guidance**

1. Management of reinsurance risk relates to the selection, monitoring, review and control of reinsurance arrangements, for both treaty and facultative reinsurance – that is, i.e. where some part of an Insurer's individual or aggregate insurance risks is ceded to other Insurers, whether by a direct Insurer to a reinsurer or by a reinsurer to other reinsurers. Ceding insurers and reinsurers should finalise the formal reinsurance contract prior to the inception date of the reinsurance cover contract.
2. An Insurer should inform the Regulator immediately if there is a likelihood of a problem arising with its reinsurance arrangements that is likely to materially detract from its current or future capacity to meet its obligations, or which may affect the transfer of risk or orderly operation of its reinsurance contracts, and discuss with the Regulator its plans to redress this situation. Problems that might trigger such a situation could include the insolvency of a reinsurer with a significant share in the Insurer's programme, discovery of exposures without current reinsurance coverage, or exhaustion of reinsurance covers through multiple losses.

3. Each Insurer is required (by Rule 2.3.5) to maintain a written reinsurance management strategy appropriate to the size and complexity of the operations of the Insurer and which defines and documents the Insurer's objectives and strategy for reinsurance management.
4. An Insurer's reinsurance management strategy should, at a minimum, include the following elements:
  - a. systems for the selection of reinsurance brokers and other reinsurance advisers;
  - b. systems for selecting and monitoring reinsurance programmes, including the reporting of claims thereunder;
  - c. processes to clearly document the principal economic and coverage terms and conditions of reinsurance contracts;
  - ed. clearly defined managerial responsibilities and controls;
  - de. clear methodologies for determining all aspects of a reinsurance programme, including:
    - i. identification and management of aggregations of risk exposure;
    - ii. selection of maximum probable loss factors;
    - iii. selection of realistic disaster scenarios, return periods and geographical aggregation areas; and
    - iv. identification and management of vertical and horizontal coverage of the reinsurance programme;
  - ef. selection of participants ~~on~~ in reinsurance contracts, including the consideration of diversification and creditworthiness ~~credit worthiness~~ creditworthiness; ~~and~~

- fg. systems for identifying credit exposures (actual and potential), to individual reinsurers or Groups of connected reinsurers ~~on~~ in programmes that are already in place;
  - h. consideration as to how its reinsurance contracts will operate in the event of the Insurer's insolvency or the insolvency of its reinsurer; and
  - i. procedures for setting prudent limits or guidelines reflecting the security and size of the reinsurer, in relation to the Insurer's maximum aggregate exposure to any one reinsurer or to a group of related reinsurers.
5. Senior management should review an Insurer's reinsurance management systems on a regular basis. The review should cover:
- a. the identification and recording of policies underwritten to which reinsurance is attached;
  - b. the identification of the dates when an obligation to pay reinsurance premiums arises;
  - c. an assessment of the systems for the reporting and ongoing monitoring and management of claims made under reinsurance contracts;
  - ed. the identification of losses triggering recoveries under reinsurance contracts;
  - de. management of the timing of payments to, and collections from, reinsurance counterparties;
  - ef. the credit standing and capacity of reinsurance counterparties to meet obligations to which they are subject as a result of claims incurred or to which they would become subject in the event of the occurrence of losses;
  - fg. any concentration of reinsurance arrangements with reinsurance counterparties which would create large exposures or detract from diversification benefits in the event of occurrence of losses;

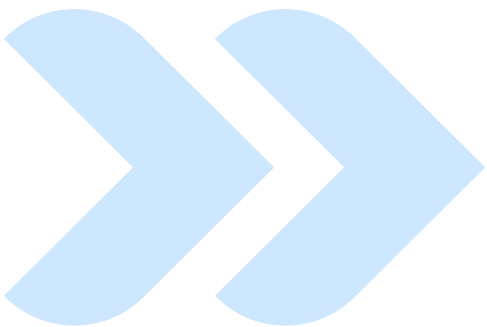
- gh. the extent of reliance on reinsurance with related parties, and the accessibility of intra group funding under a range of realistic conditions; and
  - hj. the impact of any adverse trends in estimated Insurance Liabilities on the adequacy of the Insurer's reinsurance arrangements, and any implications for the capacity of the Insurer to meet its future policyholder obligations.
6. Procedures for assessing the credit standing of reinsurance counterparties may include the following:
- a. establishment of a security committee with a specific brief to undertake the procedures;
  - b. obtaining appropriate advice from reinsurance brokers;
  - c. review of the ratings published by ratings agencies;
  - d. monitoring of key performance indicators in reinsurers' published reports; and
  - e. consideration of general conditions in the relevant reinsurance market.
7. The ceding Insurer should have in place procedures for identifying reinsurers that provide security that it finds acceptable and should keep these procedures periodically under review. If a ceding Insurer develops a pre-approved list of reinsurers, there should also be processes for dealing with situations where there is a need to assess reinsurers outside any pre-approved list. Ceding Insurers may have their own credit committees to make their own assessment of the risk.
8. Any approved security criteria should be derived from a high-level statement of what reinsurance security will be acceptable to the ceding Insurer, which may be based on:
- a. external opinions;
  - b. the ceding Insurer's own view of the reinsurer;
  - c. minimum levels of capital resources;

- d. duration and quality of relationship;
  - e. expertise of the reinsurer;
  - f. levels of retrocession;
  - g. reinsurance brokers' security criteria; or
  - h. a combination of these and other factors.
9. For facultative reinsurance, the ceding Insurer should have a specific process in place to approve, monitor and confirm the placement of each facultative risk. If facultative reinsurance is necessary to ensure that acceptance of a risk would not exceed maximum net capacity and/or risk limits, such facultative reinsurance should be secured before the ceding Insurer accepts the risk.

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## **Market Infrastructure Rulebook (MIR)**

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- 2.5.1 A Recognised Body must ensure that the systems and controls used in the performance of its Regulatory Functions are adequate, and appropriate for the scale and nature of its business. In particular, this applies to systems and controls concerning:

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## Guidance

### General

1. When assessing whether its systems and controls in the performance of its Regulatory Functions are adequate and appropriate for the scale and nature of its business, a Recognised Body should have regard to its:

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### Risk management

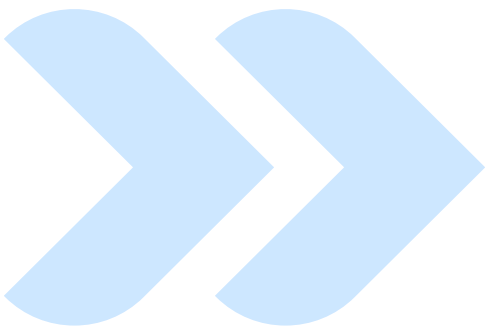
9. When assessing its systems and controls for assessing and managing risk, a Recognised Body should ensure that is able to:
- (a) identify, measure and control all the general, operational, legal and market risks wherever they arise in its activities;
  - (b) allocate responsibility for risk management to Persons with appropriate knowledge and expertise; and
  - (c) provide sufficient, reliable information to Key Individuals and, where relevant, the Governing Body of the Recognised Body.

- 9A. A Recognised Body should consider how it identifies and manages Climate-Related Financial Risk when assessing the effectiveness of its systems and controls for managing risk. Where a Recognised Body identifies material exposure to Climate-Related Financial Risk, it should take reasonable steps to understand and manage such risks in a proportionate manner.

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## **Glossary Rulebook (GLO)**

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## 1. INTRODUCTION

### 1.1 Application

1.1.1 This Rulebook ("**GLO**") applies to every Person to whom any of the Rulebooks apply.

### 1.2 Defined Terms

1.2.1 In the Rulebooks:

- (1) a word or phrase which is defined in GLO is a defined term and has the meaning given in GLO; and
- (2) a word or phrase which relates to a defined term must be interpreted accordingly.

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Defined Terms	Definitions
<u>Climate-Related Financial Risk</u>	<u>Means the risk of losses arising from climate change, including Physical Risks, Transition Risks and Liability Risks.</u>
<u>Liability Risk</u>	<u>Means, in the context of Climate-Related Financial Risk, the risk of climate-related compensatory claims and/or direct legal actions against financial firms. Liability Risk can be considered as a separate risk, and can also be treated as a subset of Physical Risk and Transition Risk.</u>
<u>Physical Risk</u>	<u>Means, in the context of Climate-Related Financial Risk, the risk of economic and financial losses from climate and weather-related events and the long-term impact of climate change.</u>
<u>Transition Risk</u>	<u>Means, in the context of Climate-Related Financial Risk, the risk of losses related to the process of adjustment towards a lower-carbon economy, which can be prompted by, for example, changes in climate policy, technological changes or changes in market and social sentiments.</u>

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### **General Rulebook (GEN)**

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### **3.6 Climate-Related Financial Risk**

3.6.1 An Authorised Person must consider, as part of its systems and controls for identifying and managing risks, whether Climate-Related Financial Risk may be material to its:

- (1) business model and strategy;
- (2) financial position; or
- (3) ability to meet its regulatory obligations.

3.6.2 Where an Authorised Person identifies material exposure to Climate-Related Financial Risk, it must take reasonable steps to understand and manage such risk in a manner proportionate to:

- (1) the nature, scale and complexity of the risk;
- (2) the size and complexity of the Authorised Person's operations; and
- (3) the nature of the Authorised Person's activities and exposures.

#### **Guidance**

1. In assessing whether Climate-Related Financial Risk is material, an Authorised Person should consider relevant factors, including:
  - a. the nature and extent of its exposures to climate-sensitive sectors;
  - b. its geographic exposures to climate-vulnerable regions;
  - c. the tenor of its exposures and typical investment horizons;
  - d. stakeholder expectations and public commitments made by the Authorised Person; and
  - e. the Authorised Person's business model and strategic direction.
2. An Authorised Person should reassess the materiality of its exposure to Climate-Related Financial Risk periodically.
3. An Authorised Person should develop climate risk models or conduct scenario analysis, including stress testing, where it is proportionate to do so.
4. Rule 3.6 complements other risk management requirements for Authorised Persons. Notwithstanding the requirements of Rule 3.6, Climate-Related Financial Risk should

be considered within existing frameworks for risk management, capital adequacy, and disclosure. Additional expectations for Authorised Persons to consider and manage Climate-Related Financial Risk specifically are set out in the following Rulebooks: PRU (Chapters 10 and 11), PIN (Chapter 2) and CIB (Chapter 2).

5. Rule 3.6 is consistent with and supports the implementation of the UAE Sustainable Finance Working Group's *Principles for the Effective Management of Climate-related Financial Risks* (November 2023), published by the Regulator as Guidance. Authorised Persons should refer to these principles for additional context on supervisory expectations.
6. Reasonable steps to understand and manage material Climate-Related Financial Risk should include:
  - a. effective governance, such as Board and Senior Management awareness, and assigning clear responsibility for oversight;
  - b. more detailed risk analysis, such as identifying where Climate-Related Financial Risk may arise and be concentrated, and understanding transmission channels;
  - c. risk monitoring, such as tracking relevant metrics or indicators and monitoring developments in climate policy and markets;
  - d. risk mitigation, such as considering climate factors in decisions and taking steps to reduce concentrated exposures where appropriate; and
  - e. disclosure, such as providing stakeholders with transparency on material exposure to Climate-Related Financial Risk and the management approach to identifying and managing it.
7. When making disclosures related to Climate-Related Financial Risk:
  - a. qualitative disclosures may be suitable where reliable quantitative metrics are not available; and
  - b. such disclosures may form part of broader sustainability-related disclosures;

provided that they provide adequate visibility and transparency on material exposure to Climate-Related Financial Risk.
8. An Authorised Person which is part of a Group may adopt and rely upon a Group-wide approach for consideration and management of Climate-Related Financial Risk. However, the Board and Senior Management remain responsible for ensuring that the Group-wide approach is appropriate for the Authorised Person and, to the extent

necessary, make any required changes to ensure that the approach adopted is directly relevant to the Authorised Person.

9. The Regulator expects that the approaches of Authorised Persons to identifying and managing Climate-Related Financial Risk will develop over time as their understanding matures, data improves, and market practices evolve. Authorised Persons should be able to demonstrate improvements in their approach to Climate-Related Financial Risk over time.

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### **7.3 Complaints recording procedures for Professional Clients**

- 7.3.1 (1) An Authorised Person must have adequate policies and procedures in place for the recording of Complaints made against it by Professional Clients.
- (2) The policies and procedures for handling Complaints must be documented in writing and provide that Complaints are handled fairly, consistently and promptly.

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## **Conduct of Business Rulebook (COBS)**

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## 2.5 Market Counterparties

### 2.5.1 Subject to Rule 2.5.2:

- (a) An Authorised Person may classify a Person as a Market Counterparty if:
  - (i) that Person qualifies as a “deemed” Professional Client in accordance with Rule 2.4.2; and
  - (ii) the requirements in Rule 2.5.1(b) have been met.
- (b) An Authorised Person must, before classifying a Professional Client as a Market Counterparty, ensure that such a Person has:
  - (i) been given a prior written notification of the classification as a Market Counterparty in relation to a particular Regulated Activity or Transaction, or in respect of all Regulated Activities and Transactions; and
  - (ii) not requested to be classified otherwise within the period specified in the notice.

### **Guidance**

In the case of a Market Counterparty which is a fund, trust or is otherwise managed or held by a Person which qualifies as a “deemed” Professional Client, notification under Rule 2.5.1(b)(i) must be given to the Person which manages or holds the assets of the Market Counterparty.

### 2.5.2 An Authorised Person which is an Insurer, Insurance Manager or Insurance Intermediary may “deem” any one or more of the following Persons to be a Market Counterparty:

- (a) a ceding insurer; and

(b) in respect of the services provided to that ceding insurer, any reinsurer, insurance agent or insurance broker that facilitates the provision of the services to the ceding insurer.

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## **7.1 Application**

7.1.1 The Rules in this chapter:

- (a) apply to an Authorised Person with respect to the conduct in or from ~~the Abu Dhabi Global Market~~ADGM of Insurance Business, Insurance Intermediation or Insurance Management to the extent specified in any Rule; and
- (b) do not apply to an Insurer that is an Authorised ISPV with the exception of sectionRule 7.2.

7.1.2 Only sections 7.2, 7.3, and 7.11, and Rules 7.6.1, 7.9.1 and 7.12.1 apply to an Insurer, Insurance Manager or Insurance Intermediary when it carries on a Regulated Activity with or for a Market Counterparty.

## **7.2 Insurance Business and Intermediation Restrictions**

7.2.1 An Authorised Person may conduct Insurance Business, Insurance Management or Insurance Intermediation with or for a Client only to the extent specified in this section.

7.2.2 An Authorised Person must ensure that it does not:

- (a) if it is an Insurer, Effect a Contract of Insurance or carry out a Contract of Insurance through an establishment maintained by it in ~~the Abu Dhabi Global Market~~ADGM; or
- (b) if it is an Insurance Manager or Insurance Intermediary, act in relation to a Contract of Insurance;

where the contract is in relation to a risk situated within the U.A.E., unless the risk is situated in ~~the Abu Dhabi Global Market~~ADGM or another Financial Free Zone, or the contract is one of reinsurance.

...

7.2.4 An Insurer must ensure that it does not carry on, through an establishment maintained by it in the ~~Abu Dhabi Global Market~~ ADGM, both Long-Term Insurance Business and General Insurance Business unless the General Insurance Business is restricted to Class 1 or Class 2 or both.

...

7.2.6 An Insurer must not carry on any activity other than Insurance Business unless it is an activity in direct connection with or for the purposes of such business. For the purposes of this Rule, Managing Assets is not an activity in connection with or for the purposes of Insurance Business.

7.2.7 An Insurer, Insurance Manager or Insurance Intermediary must only conduct business with insurance intermediaries:

- (a) that are Authorised Persons licensed to conduct Insurance Business, Insurance Management or Insurance Intermediation, as applicable, or are authorised, registered or appropriately licensed to carry out the relevant insurance activities in a jurisdiction outside ADGM;
- (b) which satisfy the requirements of Rule 7.2.8; and
- (c) where there are written terms of business in place for such relationship.

7.2.8 An Insurer, Insurance Manager or Insurance Intermediary must satisfy itself that any insurance intermediary with which it deals possesses appropriate levels of professional knowledge and experience.

### **Guidance**

1. The classes of Contracts of Insurance are set out in Chapter 1 of Part 4 of Schedule 1 of FSMR.
2. The following activities will normally be considered in direct connection with or for the purposes of Insurance Business carried on by an Insurer:

- (a) investing, reinvesting or trading, as investor or rabb ul maal and for the Insurer's own account, that of its Subsidiary, its Holding Company or any Subsidiary of its Holding Company but not any other party, in Securities, loans, investment accounts, Units or Shares in Collective Investment Funds, certificates of Mudaraba, certificates of Musharaka or other forms of Investments that are intended to earn profit or return for the investor;
  - (b) rendering other services related to Insurance Business operations including, but not limited to, actuarial, risk assessment, loss prevention, safety engineering, data processing, accounting, claims handling, loss assessment, appraisal and collection services;
  - (c) acting as agent for another insurer in respect of Contracts of Insurance in which both Insurers participate; and
  - (d) establishing Subsidiaries or Associates engaged or organised to engage exclusively in one or more of the businesses specified above.
3. The ~~regulator~~ Regulator may give individual guidance on other business activities that may be determined to be in direct connection with Insurance Business.
4. Insurers, Insurance Managers and Insurance Intermediaries should enter into written contractual arrangements with intermediaries in respect of their dealings in order to clarify their respective roles and to ensure the fair treatment of Clients. Such agreements should include, where relevant, the parties' obligations in respect of:
- (a) product development;
  - (b) product promotion;
  - (c) the provision of pre-contractual and point of sale information to Clients;
  - (d) post-sale policy servicing;
  - (e) claims notification and handling;

- (f) complaints notification and handling;
- (g) management information and other documentation required by the Insurer;
- (h) remedial measures; and
- (i) any other matters related to the relationship with Clients.

An Insurer will remain ultimately responsible for policy servicing throughout the lifecycle of the policy.

- 5. The Regulator expects Insurance Managers and Insurance Intermediaries to have a good understanding of different insurance products in respect of which they carry out their Regulated Activities, including with regard to the nature, key features and risks covered by, and associated with, an insurance product.
- 6. An Insurance Manager or an Insurance Intermediary should not carry on Regulated Activities in respect of any matter in relation to which its staff do not have the necessary specific skills or knowledge.
- 7. Insurers, Insurance Managers and Insurance Intermediaries are expected to have adequate systems and controls to comply with Rule 7.2.8 and to report to the Regulator any significant issues of which they become aware, including through identifying if a particular insurance intermediary is the subject of regular or frequent complaints.

### **7.3 Communication of Information and Marketing Material**

#### **7.3.1 General Obligation**

- (a) When communicating any information in relation to Insurance Business, Insurance Intermediation or Insurance Management to a Person, an Authorised Person must take reasonable steps to ensure that the communication is clear, fair and not misleading.

- (b) An Insurer, Insurance Manager or Insurance Intermediary must not, in any form of communication with a Person, attempt to limit or avoid any duty or liability it may have to that Person under FSMR.
- (c) An Insurer or Insurance Intermediary must, when providing or directing Marketing Material to a Retail Client, comply with the requirements in section Rule 3.2, if the Marketing Material relates to a Direct Long-Term Insurance Contract.
- (d) An Insurer, Insurance Manager or Insurance Intermediary must only market a Contract of Insurance which it has assessed to be suitable for its target Clients in accordance with Rule 7.13.1.

7.3.2 Where an Authorised Person becomes aware that any information provided pursuant to Rule 7.3.1(a) is not clear or fair, or is misleading, it must:

- (a) withdraw the information as soon as possible; and
- (b) take reasonable steps to notify any Person who is known to be relying on the information.

#### **Guidance**

1. A communication addressed to a Professional Client may not need to include the same information, or be presented in the same way as, a communication addressed to a Retail Client.
2. Records of information required to be communicated in relation to Insurance Business, Insurance Intermediation or Insurance Management pursuant to this Chapter should be maintained in accordance with GEN Rule 3.3.34.
3. Where promotional material is developed by an Authorised Person, it is expected that an independent review of promotional materials should be undertaken by a person other than the person that designed or prepared it. Additionally, where the promotional material is developed by an Insurance Intermediary or Insurance Manager, the relevant Insurer should verify the accuracy of the promotional material before it is used.

4. Where information withdrawn pursuant to Rule 7.3.2 was prepared by a third party, for example, information prepared by an insurer for use by an insurance intermediary, the Authorised Person should inform that person immediately of the withdrawal of the information and the reason why it was considered not to be clear or fair, or misleading.

...

7.5.1 An Insurer, Insurance Manager or Insurance Intermediary must disclose to a Client:

- (a) the name ~~and~~, address and the responsible supervisory authorities of the insurer or insurers effecting the Contract of Insurance;
- (b) its own name and address where different; and
- (c) contact details of the Person to whom a claim is to be notified.

7.5.2 The disclosures in Rule 7.5.1 must be made before effecting or placing the Contract of Insurance, and, where necessary, on its amendment or renewal, or as soon as reasonably practicable thereafter.

...

7.5.7 An Insurer must take reasonable steps to satisfy itself that any intermediary with whom it deals complies with the disclosure obligations set out in section 7.5.

...

7.6.4 An Insurer, Insurance Manager ~~Intermediary~~ or Insurance Intermediary ~~Manager~~ must, ~~on~~ at the request of any Client, disclose to that Client all commissions and other economic benefits accruing to the Authorised Person or any member of the same Group from:

...

#### 7.7.4 **Specific Disclosure for Long-Term Insurance**

Where an Insurer or an Insurance Intermediary proposes Direct Long-Term Insurance to a Retail Client, the disclosure for the purposes of this section must include:

- (a) the method of calculation of any bonuses;
- (b) an indication of surrender values and paid-up values, and the extent to which any such values are guaranteed;
- (c) for unit-linked insurance contracts, definition of the units to which they are linked, and a description of the underlying assets;
- (d) the basis of any projections included in the information; ~~and~~
- (e) for the purposes of investment-based insurance products and where indication of past or future performance is provided, the limits on upside or downside potential and a prominent warning that past performance is not a reliable indicator of future performance; and
- (ef) any facts that are material to the decision to invest, including risks associated with the investment and factors that may adversely affect the performance of the Investments.

#### 7.8 **Suitability and Advice**

7.8.1 An Insurer, Insurance Manager or ~~an Insurance Intermediary or Insurance Manager~~ must comply with the suitability requirement set out in Rule 3.4 when conducting any Insurance, Insurance Management or Insurance Intermediation Business with or for a Retail Client in respect of Direct Long-Term Insurance.

7.8.2 (a) The Insurer, Insurance Manager or Insurance Intermediary must obtain from a Retail Client such information as is necessary to identify the Client's circumstances and objectives, and consider whether the terms of the particular contract of General Insurance meet the requirements identified.

- (b) An Insurer, Insurance Manager ~~or~~ an Insurance Intermediary may recommend to a Client a contract of General Insurance that does not meet all the Client's requirements only if it clearly explains to the Client, at the point of making the recommendation, that the contract does not fully meet the Client's requirements and the differences in the insurance recommended and the Client instructs the Insurer or Insurance Intermediary to proceed in writing under Rule 7.8.4.
- 7.8.3 When deciding what level of explanation is appropriate for a Client to whom a contract of insurance that does not fully meet that Client's requirements is required, the Insurer or Insurance Intermediary must take into consideration the knowledge held by the Client in relation to the type of insurance in question.
- 7.8.4 Where an Insurance Intermediary is instructed to obtain insurance which is contrary to the advice that it has given to a Client, the Insurance Intermediary must obtain from the Client written confirmation of the Client's instructions before arranging or buying the relevant insurance.
- 7.8.5 An Insurer, Insurance Manager or Insurance Intermediary must disclose to a Client whether or not it provides advice.
- 7.8.6 (a) When carrying on Insurance Business, Insurance Management or Insurance Intermediation for a Retail Client in respect of Direct Long-Term Insurance, an Authorised Person that does not provide advice must recommend to the Retail Client that they seek independent advice.
- (b) If a Retail Client chooses not to receive advice in respect of Direct Long-Term Insurance, the Authorised Person must obtain a written acknowledgement from the Retail Client to that effect.
- 7.8.7 When providing advice in relation to Insurance Business, Insurance Management or Insurance Intermediation an Authorised Person must take reasonable steps to ensure that any advice is communicated in a clear and accurate manner that is comprehensible to the Client and documented in writing.

...

7.10.3 On expiry or cancellation of the insurance, at the request of the Client, an Insurer, Insurance Manager or Insurance Intermediary must promptly make available all documentation and information to which the Client is entitled.

7.10.3A An Insurer, Insurance Manager or Insurance Intermediary must provide prompt notification to a Client of any changes in policy terms and conditions or amendments to the legislation applicable to the policy.

### **Claims**

7.10.4 Where an Insurance Manager or Insurance Intermediary handles insurance claims it must:

- (a) on request, give the Client reasonable guidance, inform the Client of applicable procedures and provide the Client with the relevant forms in pursuing a claim under the relevant policy;
- (b) handle claims fairly and promptly and keep the Client informed of progress;
- (c) inform the Client in writing, with an explanation, if it is unable to deal with any part of a claim; ~~and~~
- (d) forward settlement of any claim, as soon as reasonably practicable, once it has been agreed-; and
- (e) ensure that claims are handled by individuals who have the relevant competence, expertise and experience, and who are able to handle the claims in a fair and impartial manner.

7.10.5 An Insurer, Insurance Manager or Insurance Intermediary acting on behalf of an Insurer must:

- (a) on request, give the Client reasonable guidance on applicable procedures and provide the Client with the relevant forms in pursuing a claim under the relevant policy;
- (~~a~~b) handle claims fairly and promptly;

- (bc) keep the Client informed of the progress of the claim;
- (ed) not reject a claim unreasonably;
- (de) if only part of a claim is accepted:
  - (i) provide a clear statement about the part of the claim that is accepted; and
  - (ii) give clear reasons for rejecting that part of the claim that has not been accepted; and
- (ef) settle the claim promptly; and
- (g) ensure, that claims are handled by individuals who have the relevant competence, capability, expertise and experience, and who are able to handle the claims in a fair and impartial manner.

...

## **7.12 Conflicts of Interest**

- 7.12.1 An Insurer, Insurance Manager or Insurance Intermediary must take all appropriate steps to identify and to prevent or manage any conflict or potential conflict of interest to ensure that all its Clients are treated fairly and not prejudiced by any such conflict.
- 7.12.2 An Insurer, Insurance Manager or Insurance Intermediary must, as a part of its systems and controls, take reasonable steps to prevent conflicts of interest from adversely affecting the interests of its Clients.
- 7.12.3 An Insurer, Insurance Manager or Insurance Intermediary must disclose any conflict or potential conflict of interest to the affected Clients in writing.
- 7.12.4 If an Insurer, Insurance Manager or Insurance Intermediary is unable to prevent or manage a conflict or potential conflict of interest, it must decline to act for the affected Clients.

## **Guidance**

1. Insurers, Insurance Managers and Insurance Intermediaries are expected to ensure that their Clients are treated fairly and not prejudiced by any conflict of interests. For these purposes, reference should be made to the provisions of GEN 3.3.21 to 3.3.30 and, in particular, to the factors set out in GEN 3.3.22 whose existence may give rise to a material risk of damage to the interests of Clients.
2. Particular attention should be given to the role of an intermediary, the capacity in which it acts, to whom it owes its duties and the nature of its remuneration. For example, if it is acting as an Insurance Intermediary, it is generally acting as an agent for the policyholder and it has a duty to act in the best interests of the policyholder. Where it is acting as an Insurance Manager, it has a duty to act in the best interests of its principal, i.e. the insurer or insurers from which it holds a mandate to act as agent.
3. While the Rules do not prohibit an Insurance Intermediary from acting for both an insurer and a policyholder in relation to the same risk, such an arrangement could result in conflicts of interest that are difficult to manage. If an Insurance Intermediary proposes to act for both an insurer and a policyholder in relation to the same risk, it should, under Rule 7.12.3 and at a minimum, notify both parties in a timely manner about the roles it will be performing and the procedures that will apply if acting in the interests of one party will impair its ability to properly act in the best interests of the other party.
4. Conflicts of interest may arise from compensation structures as well as other financial and non-financial incentives. Compensation and incentive structures, including performance targets or performance management criteria, that do not align the interests of an Insurer, Insurance Manager or Insurance Intermediary with the interests of a Client and that are not sufficiently linked to fair outcomes for the Client should not be used as they can encourage behaviour that results in unsuitable sales or other breaches of the Insurer's, Insurance Manager's or Insurance Intermediary's duty of care towards the Client.

## **7.13 Product Development**

7.13.1 When designing and developing a Contract of Insurance, an Insurer must:

- (a) take into consideration the needs and requirements of its target Client segments;
- (b) undertake an assessment of the characteristics of a new product and the related documentation;
- (c) undertake appropriate due diligence to understand and evaluate:
  - (i) the features and characteristics of the product and its benefits for each Client segment;
  - (ii) whether the target Client segment would be able to understand the product;
  - (iii) whether the objectives, characteristics and associated costs and fees of the product are suitable for its target Clients;
  - (iv) whether the distribution methods are appropriate for the new product, including the competency of its Employees and, if applicable, any Insurance Manager or Insurance Intermediary to understand and properly explain the features and characteristics of the product; and
  - (v) whether the new product is consistent with its risk appetite; and
- (d) identify Client segments for which the product is and is not suitable.

7.13.2 Where the development of a product is undertaken by an Insurance Manager or Insurance Intermediary on behalf of an Insurer, the Insurer must retain oversight of, and is accountable for, the development of the product in accordance with Rule 7.13.1.

### **Guidance**

1. Insurers should provide relevant information to insurance managers or insurance intermediaries to ensure that they understand the target market for a new

product, including information related to the characteristics of the new product and the target market.

2. Insurers and Insurance Managers should monitor a new product after launch to ensure that it meets the needs and requirements of the target market.
3. Products and distribution strategies should be revised periodically based on the assessment undertaken pursuant to paragraph 2.

**Captive Insurance Business Rulebook (CIB)**

\*In this attachment underlining indicates new text and striking through indicates deleted text.



...

### **2.3.3 Quarterly Regulatory Return [Deleted]**

- (1) ~~Except as otherwise provided in this Rule 2.3, a Captive Insurer must, at the end of March, June, September and December in each year, prepare a quarterly Regulatory Return in respect of the period commencing at the start of the Captive Insurer's reporting period and ending on that date.~~
- (2) ~~The quarterly Regulatory Return must comprise the statements set out in this Rule 2.3, together with any Supplementary Notes pertaining to those forms, and including a Statement by Directors.~~
- (3) ~~The form and content of the statements comprising the quarterly Regulatory Return (including the Statement by Directors) are set out in this Rule 2.3, and EPRS.~~
- (4) ~~Class 1 Captive Insurers are not required to prepare a quarterly Regulatory Return unless required in writing by the Regulator to do so.~~

...

### **2.3.5 Completion of forms for global and Fund reporting units**

- (1) A Regulatory Return must be completed in respect of each of the reporting units set out in this Rule that applies to the Captive Insurer.

...

- (4) Except as provided otherwise in this Chapter, a Captive Insurer that is a Cell Company must, each time a Global Return is completed as provided in Rule 2.3.5(3)(b), separately complete a Cell Return in respect of each Captive Cell that it maintains. A Cell Return includes all of the assets, liabilities, equity, revenues and expenses attributable to the Captive Cell, regardless of the residency status or location of the customer or of any asset or liability. A Captive Insurer that is a Cell Company is not required to complete a Cell Return each time a quarterly Regulatory Return is completed in respect of any Cell maintained by it that is a ~~Class 1~~ Captive Cell unless required by the Regulator to do so.

...

### **2.3.7 Submission of Regulatory Returns to the Regulator**

- (1) A Captive Insurer must submit its annual Regulatory Return in writing to the Regulator within four months of the Captive Insurer's reporting date.

- (2) A Captive Insurer must prepare and submit its annual Regulatory Return in the following manner:
- (a) the annual Regulatory Return must be submitted to the Regulator using EPRS:
- (i) ~~in accordance with any instructions set out in the notice and any instructions provided through such a system by the Regulator or specified in this Chapter; and~~
- (ii) ~~within four months of the Captive Insurer's reporting date;~~
- ...
- (7) ~~Subject to Rule 2.3.7(8), Where required by the Regulator to prepare a quarterly Regulatory Return, a Captive Insurer must submit its quarterly Regulatory Return in writing to the Regulator in the manner and within the time period prescribed by the Regulator. within two months of the end of each period in respect of which the Captive Insurer is required to prepare a quarterly Regulatory Return.~~
- ~~(8) When the Regulator has issued a notice announcing that EPRS is in operation, a Captive Insurer must, from the date specified in the notice, prepare and submit its quarterly Regulatory Return in the following manner:~~
- ~~(a) the quarterly Regulatory Return, excepting the parts of the quarterly Regulatory Return referred to in 0(8)(b) and 0(8)(c), must be submitted to the Regulator using EPRS:~~
- ~~(i) in accordance with any instructions set out in the notice and any instructions provided through such a system or specified in this Chapter; and~~
- ~~(ii) within two months of the Captive Insurer's reporting date;~~
- ~~(9) The Statement by Directors forming part of the quarterly Regulatory Return must be signed before the time of submission by one Director of the Captive Insurer.~~
- ~~(10) An original signed hard copy of the Statement by Directors, together with a copy of the quarterly Regulatory Return submitted to the Regulator using EPRS, must be kept for at least six years for inspection by the Regulator.~~
- (118) If within twenty-four months of the date that an annual Regulatory Return or quarterly Regulatory Return is submitted to the Regulator, the Regulator notifies the Captive Insurer that a Regulatory Return appears to be inaccurate or incomplete, the Captive Insurer must consider the matter and within one month of the date of notification it must correct any inaccuracies, make good any omissions and re-submit the relevant parts of the Regulatory Return.
- (129) A Captive Insurer must submit, at the same time as every annual Regulatory Return of that insurer or as soon as practicable thereafter, any report on the

affairs of the Captive Insurer submitted to the shareholders or policyholders of the Captive Insurer in respect of the reporting period to which the annual Regulatory Return relates.

...

### 2.3.9 General provisions relating to the completion of forms

- (1) Supplementary Notes must be presented in accordance with any instructions specified by the Regulator, including instructions provided through the prudential reporting system specified by the Regulator. Each Supplementary Note must identify the form to which it relates.
- (2) Regulatory Returns must be presented in English.
- (3) Where the format of a form requires the presentation of comparative information, the comparative information shall be presented according to the following principles:
  - (a) in the case of a form forming part of the annual Regulatory Return, the comparative information shall be that presented in the annual Regulatory Return for the previous reporting period;
  - (b) ~~in the case of a form forming part of the quarterly Regulatory Return, the comparative information shall be that presented in the quarterly Regulatory Return for the corresponding quarter in the previous calendar year;~~
  - (c) comparative information shall be presented unless:
    - (i) the Captive Insurer did not exist at any time during the comparative period (whether or not it was a Captive Insurer); or
    - (ii) in the case of a Cell Return or a Fund Return, the Captive Cell or the Long-Term Insurance Fund to which the Regulatory Return relates did not exist at any time during the comparative period;
  - (d) a Captive Insurer that is required to present comparative information in a Regulatory Return, and that was not required to prepare a Regulatory Return in respect of the comparative period, must present comparative information that would have been presented in the Regulatory Return covering the comparative period, if the Captive Insurer had been required to prepare that Regulatory Return; and
  - (e) comparative information shall not be changed from the time it was first presented, unless re-presentation is necessary for the interpretation of the Regulatory Return. Where comparative information is changed, the Captive Insurer must include in the Regulatory Return a Supplementary Note showing the nature of the change and the reason for it.

...

- (5) Each page of the Statement by Directors must show:
- (a) the words 'annual Regulatory Return' or '~~quarterly Regulatory Return~~', as applicable;

...

### 2.3.10 Statement by directors

- (1) Every annual ~~and quarterly~~ Regulatory Return must include a Statement by Directors, in accordance with this Rule.
- (2) The Statement by Directors forming part of the annual Regulatory Return must state that:
- (a) the annual Regulatory Return has been prepared in accordance with the provisions of PIN, this Chapter 2 and the instructional guidelines and prudential reporting systems specified by the Regulator;
- (b) proper accounting records have been maintained and adequate information obtained by the Captive Insurer;
- (c) appropriate systems and controls have been established and maintained by the Captive Insurer over its transactions and records;
- (d) the Captive Insurer has complied with the provisions of Rule 2.2 of these Rules throughout the reporting period; and
- (e) the Captive Insurer complies, as at the date of the statement, with those provisions of PIN that are applicable to it.
- (3) ~~The Statement by Directors forming part of the quarterly Regulatory Return must state that:~~
- (a) ~~the quarterly Regulatory Return has been prepared in accordance with the provisions of PIN, this Chapter 2 and the instructional guidelines and prudential reporting systems specified by the Regulator; and~~
- (b) ~~the Captive Insurer complies, as at the date of the statement, with those provisions of PIN that are applicable to it.~~
- (4) If in the opinion of the directors it would be untrue to make one or more of the statements referred to in Rule 2.3.10(3)(a) or Rule 2.3.10(3)(b) the statements concerned must be omitted and the Captive Insurer must instead state in a Supplementary Note that the directors are unable to make the statements in question, and must give the reasons for that inability.

...

## 2.4.2 Management of particular risks

Without prejudice to the generality of Rule 2.4.1, a Captive Insurer must develop, implement and maintain a risk management system to identify and address risks, including but not limited to:

- (a) reserving risk;
- (b) investment risk (including risks associated with the use of Derivatives);
- (c) underwriting risk;
- (d) market risk;
- (e) liquidity management risk;
- (f) credit quality risk;
- (g) fraud and other fiduciary risks;
- (h) compliance risk;
- (i) outsourcing risk;
- (j) Cyber Risk; and
- (k) reinsurance risk, ~~Reinsurance risk~~ which refers to risks associated with the Captive Insurer's use of reinsurance arrangements as Cedant, including insolvency risk; and
- (l) Climate-Related Financial Risk.

### Guidance

GEN 3.5 ~~and 3.6~~ contains additional requirements that apply to Authorised Persons in relation to Cyber Risk management and the management of Climate-Related Financial Risk respectively.

...

## 6.3 Accounting standards and principles

6.3.1 Except where these Rules provide for a different method of recognition or valuation, whenever a Rule refers to an asset, liability, equity or income statement item, a Captive Insurer must, for the purpose of that Rule, recognise the asset, liability, equity or income statement item and measure its value in accordance with IFRS. ~~or any other accounting standards as applicable to the Captive Insurer for the purpose of its external financial reporting.~~

...

6.10.2 Premiums in respect of a group of direct Contracts of Insurance, facultative contracts of or contracts of reinsurance and non-proportional treaty contracts of reinsurance entered into by a Captive Insurer as insurer must, in accordance with IFRS 17, be treated as receivable from the date of entering into the insurance contract, earliest of:

- (a) the beginning of the coverage period applicable to the group of contracts;
- (b) when the first payment from a policyholder in the group of contracts becomes due;  
or
- (c) when the group of contracts becomes onerous.

6.10.3 ~~Premiums in respect of proportional treaty contracts of reinsurance entered into by a Captive Insurer as reinsurer must be treated as receivable in accordance with the pattern of the Cedant entering into the underlying Contracts of Insurance:~~

- (1) A group of reinsurance contracts held by a Captive Insurer must be recognised as an asset or liability, as applicable, from the earlier of:
  - (a) the beginning of the coverage period of the group of reinsurance contracts that are held; or
  - (b) when the group of underlying insurance contracts becomes onerous.
- (2) Notwithstanding (1)(a), a Captive Insurer must delay the recognition of a group of reinsurance contracts held by it that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts.

...

6.10.6 ~~A Captive Insurer must treat as a liability the value of future claims payments and associated direct and indirect settlement costs, arising from insured events that have occurred as at the Solvency Reference Date.~~

Where a Captive Insurer is required to recognise a liability associated with the value of expected future claims payments and associated direct and indirect settlement costs, that liability must be calculated in accordance with the appropriate measurement model determined under IFRS 17.

6.10.7 A Captive Insurer may treat as an asset the value of reinsurance ~~receivables~~ and other recoveries expected to be received in respect of claims, in accordance with IFRS 17.

6.10.8 ~~Where this Rule requires a Captive Insurer is required to recognise as an asset the value of arising from expected future receipts, that asset must be measured as the net present value of those expected future receipts. calculated in accordance with the appropriate measurement model determined under IFRS 17.~~

...

6.11.2 Premiums in respect of ~~a group of contracts of reinsurance contracts~~ entered into by a Captive Insurer as insurer must be treated as receivable from the ~~date on which they are due and receivable. earlier of:~~

- (a) the beginning of the coverage period of the group of reinsurance contracts; or
- (b) when the Captive Insurer recognises the group of underlying contracts as onerous.

...

6.11.4 (1) ~~Acquisition costs incurred in respect of Contracts of Insurance entered into by a Captive Insurer must be treated as payable:~~

- (a) ~~in the case of expenses directly related to the premiums in respect of the contract, at the same time as the premium is treated as receivable; and~~
- (b) ~~in the case of expenses not directly related to the premiums in respect of the contract, at the time the contract is effected.~~

(2) Expenses associated with the maintenance of Contracts of Insurance, including, but not limited to, the costs of reporting to policyholders and the costs of managing investments, must be treated as payable as they are incurred.

6.11.5 ~~A Captive Insurer must treat as a liability the amount of Policy Benefits that are due for payment on or before the Solvency Reference Date calculate insurance contract liabilities in accordance with the appropriate measurement model determined under IFRS 17.~~

6.11.6 ~~A Captive Insurer may treat as an asset the value of reinsurance receivables and other recoveries expected to be received in respect of claims, in accordance with IFRS 17.~~

6.11.7 ~~Where this Rule requires a Captive Insurer is required to recognise as an asset the value of expected arising from future receipts, that asset must be measured as the net present value of those expected future receipts calculated in accordance with the appropriate measurement model determined under IFRS 17.~~

...

## **6.12 Discount rates**

6.12.1 ~~The Regulator may specify actuarial principles to be used by a Captive Insurer in determining the discount rate:~~

A Captive Insurer is required to use discount rates in accordance with IFRS 17.

6.12.2 ~~For the purposes of determining the net present value of expected future payments in accordance with Rule 6.10 or 6.11, a Captive Insurer must use as a discount rate the gross redemption yield of a portfolio of sovereign risk securities which:~~

- (a) ~~are AAA-rated by Standard & Poor's (or the equivalent by another Approved Rating Agency); and~~
- (b) ~~have a similar expected payment profile to the liability being measured.~~

A Captive Insurer must disclose in the audited financial statements the discount rates employed by it, as well as the methodology used to derive the discount rates.

6.12.3 ~~For the purposes of determining the net present value of expected future receipts in accordance with Rule 6.10.8, a Captive Insurer must use as a discount rate the gross redemption yield of a portfolio of sovereign risk securities which:~~

(a) ~~are AAA-rated by Standard & Poor's (or the equivalent by another Approved Rating Agency); and~~

(b) ~~have a similar expected payment profile to the liability being measured.~~

~~[Deleted]~~

~~6.12.4 PIN 4.1.4 applies in respect of determination of ratings for the purposes of Rules 6.12.2 and 6.12.3.~~

~~[Deleted]~~

## **Prudential – Investment, Insurance Intermediation and Banking Rulebook (PRU)**

\*In this attachment underlining indicates new text and striking through indicates deleted text.

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## 1.2 Glossary

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of these Rules.

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Operational Risk	<p><del>(1) Refers to the risk of incurring losses due to the failure of systems, processes, and personnel, whether internal or external to the Authorised Person, to perform expected tasks.</del></p> <p><del>(2) Operational Risk losses also include losses arising out of legal risk.</del></p> <p><u>The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.</u></p>
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## 10.2 Overview

### Guidance

1. These Rules ~~are designed to~~ implement key aspects of Pillar 2 of the ~~revised~~ framework for determining capital adequacy, ~~commonly known as Basel III, as published by the BCBS.~~

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### Climate-Related Financial Risk

7. When conducting its IRAP and, if required, its ICAAP, an Authorised Person should consider whether Climate-Related Financial Risk may have a material impact on its risk profile and capital adequacy over its planning horizon. Where Climate-Related Financial Risk is identified as potentially material to its risk profile or capital adequacy, an Authorised Person should document:
  - a. the nature of the risks identified and their potential impact;
  - b. how these risks may affect capital, liquidity and operational requirements; and
  - c. any management actions planned or taken to mitigate those risks.

8. The Regulator will consider Climate-Related Financial Risk as part of its SREP where relevant to an Authorised Person's risk profile and capital adequacy.

...

## 11.1 Application and general obligation of disclosure

### Guidance

1. The purpose of the requirements in this Chapter is to ensure that minimum public disclosures are made available to market participants to assist them in forming an opinion on the risk profile and capital adequacy of an Authorised Person. The Regulator expects an Authorised Person to convey its actual risk profile to market participants.
2. An Authorised Person that has identified material exposure to Climate-Related Financial Risk should provide appropriate disclosure of:
  - a. how such risks are governed and overseen;
  - b. how such risks are integrated into its risk management processes; and
  - c. the key metrics used to monitor and manage such risks, where available.
3. When making disclosures related to Climate-Related Financial Risk:
  - a. qualitative disclosures may be suitable where reliable quantitative metrics are not available; and
  - b. such disclosures may form part of broader sustainability-related disclosures;  
provided that they provide adequate visibility and transparency on material exposure to Climate-Related Financial Risk.
4. An Authorised Person which is part of a Group may adopt and rely upon a Group-wide approach for its consideration and management of Climate-Related Financial Risk. However, the Board and Senior Management remain responsible for ensuring that the Group-wide approach is appropriate for the Authorised Person. To the extent necessary, the Authorised Person should make any required changes to the Group-wide approach to ensure it is directly relevant to the Authorised Person's activities.
5. Authorised Persons should have regard to Principle 5 of the UAE Sustainable Finance Working Group's *Principles for the Effective Management of Climate-related Financial Risks* (November 2023),

published by the Regulator as Guidance, on the monitoring and reporting of such risks. Disclosures should be proportionate to the nature and scale of the Authorised Person's Climate-Related Financial Risk exposure.

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#### **A11.1 IRAP**

##### **Guidance**

##### **Application**

1. This Guidance is relevant to an Authorised Person described in Section 10.3 (that is, a firm in Category 1, 2, 3A, 3B, 3C, or 5) in regard to an Internal Risk Assessment Process (referred to in this Guidance as an IRAP).
2. The following Guidance generally assumes that the Rules relating to capital adequacy in these Rules apply to an Authorised Person on a solo basis. However, the Guidance is to be read as also applying where the capital adequacy requirements in these Rules apply to the Financial Group of an Authorised Person on a consolidated basis.

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##### **Guidance on risks to be covered as part of the IRAP**

11. An Authorised Person should consider the following risks, where relevant, in its IRAP and all others that it believes to be material:
  - a. Credit Risk, including Large Exposures and concentration risks;
  - b. Market Risk;
  - c. Liquidity Risk;
  - d. for Islamic Financial Business involving PSiAs, displaced commercial risk;
  - e. interest rate risk in the Non-Trading Book;
  - f. Operational Risk;
  - g. internal controls and systems; ~~and~~
  - h. reputational risk; ~~and~~
  - i. Climate-Related Financial Risk.

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