

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

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

CHAPTER V

SOLVENCY CAPITAL REQUIREMENT STANDARD FORMULA

SECTION 5

*Market risk module*

*Subsection 5*

*Spread risk sub-module*

[<sup>F1</sup> Article 176a

**Internal assessment of credit quality steps of bonds and loans**

1 A bond or loan for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214 may be assigned to credit quality step 2 if all of the criteria set out in paragraphs 3 and 4 are met with respect to the bond or loan.

2 A bond or loan for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214, other than a bond or loan assigned to credit quality step 2 under paragraph 1, may be assigned to credit quality step 3 if all of the criteria set out in paragraphs 3 and 5 are met with respect to the bond or loan.

3 The criteria in this paragraph are as follows:

- a the insurance or reinsurance undertaking's own internal credit assessment of the bond or loan meets the requirements listed in Article 176b;
- b the bond or loan is issued by a company which does not belong to the same corporate group as the insurance or reinsurance undertaking;
- c the bond or loan is not issued by a company which is an insurance or reinsurance undertaking, an infrastructure entity, a credit institution, an investment firm, a financial institution, an AIFM, a UCITS investment management company, an institution for

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**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, Article 176a is up to date with all changes known to be in force on or before 18 July 2024. 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

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- occupational retirement provision or a non-regulated undertaking carrying out financial activities;
- d no claims on the issuing company of the bond or loan rank senior to the bond or loan, except for the following claims:
  - (i) statutory claims and claims from liquidity facility providers provided that those statutory claims and claims from liquidity facility providers are in aggregate not material relative to the overall senior debt of the issuing company;
  - (ii) claims from trustees;
  - (iii) claims from derivatives counterparties;
- e the bond or loan provides a fixed redemption payment on or before the date of maturity, in addition to regular fixed or floating rate interest payments;
- f the contractual terms and conditions of the bond or loan provide for the following:
  - (i) the borrower is obliged to provide audited financial data to the lender at least annually;
  - (ii) the borrower is obliged to notify the lender of any events that could materially affect the credit risk of the bond or loan;
  - (iii) the borrower is not entitled to change the terms and conditions of the bond or loan unilaterally, nor to make other changes to its business that would materially affect the credit risk of the bond or loan;
  - (iv) the issuer is prohibited from issuing new debt without the prior agreement of the insurance or reinsurance undertaking;
  - (v) what constitutes a default event is defined in a way that is specific to the issue and the issuer;
  - (vi) what is to happen on a change of control;
- g the bond or loan is issued by a company that meets all of the following criteria:
  - (i) the company is a limited liability company;
  - (ii) the company has its head office in [<sup>F2</sup>the United Kingdom];
  - (iii) more than 50 % of the annual revenue of the company is denominated in currencies of countries which are members of <sup>F3</sup>... the OECD;
  - (iv) the company has operated without any credit event over at least the last 10 years;
  - (v) at least one of the following conditions is fulfilled with respect to each of the last three financial years ending prior to the date on which the Solvency Capital Requirement is being calculated:
    - the annual turnover of the company exceeds EUR 10 000 000 ;
    - the balance sheet total of the company exceeds EUR 10 000 000 ;
    - the number of staff employed by the company exceeds 50;
  - (vi) the sum of the company's annual earnings before interest, tax, depreciation and amortisation ( ‘ EBITDA ’ ) over the last five financial years is larger than 0;

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- (vii) the total debt of the company at the end of the most recent financial year for which figures are available is no higher than 6,5 times the average of the company's annual free cash flows over the last five financial years;
- (viii) the average of the company's EBITDA over the last five financial years is no lower than 6,5 times the company's interest expense for the most recent financial year for which figures are available;
- (ix) the net debt of the company at the end of the most recent financial year for which figures are available is no higher than 1,5 times the company's total equity at the end of that financial year.

4 The yield on the bond or loan, and the yield on any bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:

- a the average of the yields on the two indices determined in accordance with paragraph 6;
- b the sum of 0,5 % and the yield on the index that meets the requirement in point (d) of that paragraph.

5 The yield on the bond or loan, and the yield on bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:

- a the average of the yields on the two indices determined in accordance with paragraph 7;
- b the sum of 0,5 % and the yield on the index that meets the requirement in point (b) of that paragraph.

6 For the purposes of paragraph 4, the insurance or reinsurance undertaking shall determine, for the bond or loan referred to in paragraph 1, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:

- a both indices are broad indexes of traded bonds for which an external credit assessment is available;
- b the constituent traded bonds in the two indices are denominated in the same currency as the bond or loan;
- c the constituent traded bonds in the two indices have a similar maturity date as the bond or loan;
- d one of the two indices consists of traded bonds of credit quality step 2;
- e one of the two indices consists of traded bonds of credit quality step 4.

7 For the purposes of paragraph 5, the insurance or reinsurance undertaking shall determine, for the bond or loan referred to in paragraph 2, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:

- a both indices meet the requirements set out in points (a), (b) and (c) of paragraph 6;
- b one of the two indices consists of traded bonds of credit quality step 3;
- c one of the two indices consists of traded bonds of credit quality step 4.

8 For the purposes of paragraph 4, where the bond or loan referred to in paragraph 1 has features, other than those related to credit risk or illiquidity, which materially differ from the features of the constituent traded bonds in the two indices determined in accordance with paragraph 6, the insurance or reinsurance undertaking shall adjust the yield on the bond or loan to reflect those differences.

9 For the purposes of paragraph 5, where the bond or loan referred to in paragraph 2 has features, other than those related to credit risk or illiquidity, which materially differ from

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the features of the constituent traded bonds in the two indices determined in accordance with paragraph 7, the insurance or reinsurance undertaking shall adjust the yield on the bond or loan to reflect those differences.]

#### Textual Amendments

- F1** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 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).
- F2** Words in Art. 176a(3)(g)(ii) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(7)(a)**; 2020 c. 1, Sch. 5 para. 1(1)
- F3** Words in Art. 176a(3)(g)(iii) omitted (31.12.2020) by virtue of The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(7)(b)**; 2020 c. 1, Sch. 5 para. 1(1)

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**Changes and effects yet to be applied to :**

- [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. 1\(18a\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(a\)](#)
- [Art. 1\(18b\)\(a\) substituted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(i\)](#)
- [Art. 1\(18b\)\(a\) word omitted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(ii\)](#)
- [Art. 1\(18b\)\(c\) and word inserted by S.I. 2024/705 Sch. 2 para. 27\(b\)\(iii\)](#)
- [Art. 1\(19\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(c\)](#)
- [Art. 1\(20\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(d\)](#)
- [Art. 1\(21\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(e\)](#)
- [Art. 1\(22\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(f\)](#)
- [Art. 1\(23\) words substituted by S.I. 2024/705 Sch. 2 para. 27\(g\)](#)
- [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\)](#)
- [Art. 257\(1A\) inserted by S.I. 2024/705 Sch. 2 para. 28\(3\)](#)
- [Art. 257\(6\) inserted by S.I. 2024/705 Sch. 2 para. 28\(7\)](#)