

## PRA RULEBOOK: SOLVENCY II FIRMS: MATCHING ADJUSTMENT INSTRUMENT 2024

### Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of its power under section 137G (The PRA’s general rules) and section 137T (General supplementary powers) and related provisions in the Financial Services and Markets Act 2000 (“the Act”), and regulation [x] of The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023.
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

### PRA Rulebook: Solvency Firms: Matching Adjustment Instrument 2024

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Matching Adjustment	B
Technical Provisions	C
Conditions Governing Business	D
Reporting	E

### Commencement

- D. This instrument comes into force on [DATE].

### Citation

- E. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Matching Adjustment Instrument 2024.

### By order of the Prudential Regulation Committee

[DATE]

## Annex A

### Amendments to the Glossary Part

In this Annex new text is underlined and deleted text is struck through.

**Note: The defined terms ‘matching adjustment portfolio’ and ‘relevant portfolio of assets’ were consulted on in CP 12/23 ‘Review of Solvency II: Adapting to the UK insurance market’. As the PRA proposes that the rules consulted on here will take effect prior to those contained in that CP, these terms are to be inserted into the Glossary Part by this instrument. Changes to the text consulted on in CP 12/23 are highlighted in green.**

**Note: A number of the terms below are defined as applying in relation to the Matching Adjustment Part. The PRA will consider whether these are included in the Glossary Part or the Matching Adjustment Part.**

**Note: The defined term ‘cash-flows that are not fixed’ assumes that cash flows currently referred to in regulation 42(4)(k)(ii) and 42(6) of the Solvency 2 Regulations 2015 will be excluded by the MA regulations.**

...

#### asset type

means a category of assets that have similar features and/or similar methodologies for the purposes of determining the *credit rating* or internal credit assessment for that type of asset.

...

#### assigned asset

means an asset contained in the *relevant portfolio of assets*, that falls within the scope of Matching Adjustment 4.4(1).

...

#### basic relevant risk-free interest rate term structure

means the *relevant risk-free interest rate term structure* without:

- (1) a *matching adjustment*;
- (2) a *volatility adjustment*, or
- (3) a *risk-free interest rate transitional measure*.

...

#### cash-flows that are not fixed

means any cash-flows that are not fixed or that are capable of being changed by issuers of the assets or any third parties, but excluding any cash-flows that fall within the scope of regulation [x] of the *MA regulations*.

...

#### credit quality step

means, in relation to the Matching Adjustment Part, the credit quality steps set out in the Annex to Binding Technical Standard 2016/1800.

#### credit quality step pair

means, in relation to the Matching Adjustment Part, a sequential pair of *credit quality steps*, paired in the order in which they are set out in the Annex to Binding Technical Standard 2016/1800.

*credit rating*

in relation to the Matching Adjustment Part, has the meaning given to that term in regulation [x] of the *MA regulations*.

*credit rating agency*

in relation to the Matching Adjustment Part, has the meaning given to that term in Regulation [x] of the *MA regulations*.

...

*default*

in relation to the Matching Adjustment Part, has the meaning given to that term in Article 4(4) of Binding Technical Standard 2016/1799.

...

*exposure limit*

means, in relation to the Matching Adjustment Part, any limit that forms part of the *firm's matching adjustment permission* in accordance with regulation [x] of the *MA regulations* in respect of the inclusion of a particular asset or assets in the *relevant portfolio of assets*.

...

*highly predictable*

has the meaning given to that term in Matching Adjustment 5.3.

...

*life expense risk*

means the risks covered by the life-expense risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3.9(4).

...

*longevity risk*

means the risks covered by the longevity risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3.9(2).

...

*MA regulations*

means [The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023].

...

*matching adjustment*

means the adjustment to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of a *relevant portfolio of insurance or reinsurance obligations* in accordance with:

- (1) Technical Provisions 6 and 7 the Matching Adjustment Part; and

- (2) ~~the *Solvency II Regulations* adopted under Article 86(1)(h) – (i) of the *Solvency II Directive* [deleted]~~
- (3) ~~for the purposes of calculating *technical provisions* as at a point in time falling before *IP completion day*, the relevant technical information made by *EIOPA* under Article 77e(1)(b) of the *Solvency II Directive* and adopted in the *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*; and [deleted]~~
- (4) ~~for the purposes of calculating *technical provisions* as at a point in time falling on or after *IP completion day*, the relevant technical information published by the *PRA* in accordance with regulation 4B(1) of the *Solvency 2 Regulations* regulation [x] of the *MA regulations*.~~

*matching adjustment approval*

~~means the approval granted to a *firm* by the *PRA* to permit it to apply a *matching adjustment* for the purposes of calculating the *best estimate* in relation to a *relevant portfolio of insurance and reinsurance obligations*.~~

*matching adjustment eligibility conditions*

~~means:~~

- ~~(1) the conditions contained in regulation [x] of the *MA regulations*; and~~
- ~~(2) the conditions contained in 2.2 to 2.4 (inclusive) of the Matching Adjustment Part.~~

*matching adjustment permission*

~~means the permission granted to a *firm* by the *PRA* pursuant to section 138BA of *FSMA* to apply a *matching adjustment* for the purposes of calculating the *best estimate* in relation to a *relevant portfolio of insurance and reinsurance obligations*.~~

*matching adjustment permission application*

~~means an application by a *firm* for a *matching adjustment permission*.~~

*matching adjustment portfolio*

~~means a *relevant portfolio of insurance or reinsurance obligations* and the *relevant portfolio of assets*.~~

...

*mortality risk*

~~means the risk covered by the mortality risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3.9(1).~~

...

*rating notch*

~~means, in respect of each *credit quality step*, the additional sub-categories (if relevant) which differentiate the relative credit quality of assets within that *credit quality step*.~~

...

*recovery time risk*

~~means the risk of loss, or of adverse change in the value of insurance obligations, resulting from changes in the expected time until the cessation of payments to those currently unable to work due to illness, injury or disability.~~

...

relevant portfolio of assets

means, in respect of a *relevant portfolio of insurance or reinsurance obligations*, the portfolio of assets, referred to in ~~regulation 42(4)(a) and (b) of the Solvency 2 Regulations 2015~~ regulation [x] of the MA regulations, which is assigned to cover the *best estimate* of those insurance or *reinsurance obligations*.

*relevant portfolio of insurance or reinsurance obligations*

means a portfolio of insurance or *reinsurance obligations* falling within any *long-term insurance business class*, including annuities stemming from a *contract of general insurance*, in respect of which a *firm* has been granted, or is applying for, a ~~*matching adjustment approval*~~ *matching adjustment permission*.

*relevant risk-free interest rate term structure*

means the relevant risk-free interest rate term structure, in accordance with:

- (1) Technical Provisions 5 and 8.3 to 8.4; and
- (2) ~~the *Solvency II Regulations* adopted under Article 86 of the *Solvency II Directive*; and~~~~[deleted]~~
- (3) ~~for the purposes of calculating technical provisions as at a point in time falling before *IP completion day*, the relevant technical information made by *EIOPA* under Article 77e(1)(a) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*;~~~~[deleted]~~
- (4) ~~for the purposes of calculating technical provisions as at a point in time falling on or after *IP completion day*, the relevant technical information made~~ published by the *PRA* in accordance with ~~regulation 4B(1) of the *Solvency 2 Regulations*~~ regulation [x] of the *MA regulations*.

...

revision risk

means the risk covered by the revision risk sub-module referred to in Solvency Capital Requirement – Standard Formula 3.9(5).

...

*underwriting risk*

means the risk of loss or of adverse change in the value of insurance ~~obligations~~ liabilities, due to inadequate pricing and provisioning assumptions.

~~[Note: Art. 13(30) of the *Solvency II Directive*]~~

...

## **Annex B**

### **Matching Adjustment Part**

In this Annex, the text is all new and is not underlined.

**Part**

# **MATCHING ADJUSTMENT**

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## **Chapter content**

- 1. APPLICATION AND DEFINITIONS**
- 2. ELIGIBILITY TO APPLY A MATCHING ADJUSTMENT**
- 3. MATCHING ADJUSTMENT PERMISSIONS**
- 4. CALCULATION OF THE MATCHING ADJUSTMENT**
- 5. ASSETS WITH CASH-FLOWS THAT ARE NOT FIXED**
- 6. REQUIREMENT FOR THE FUNDAMENTAL SPREAD TO REFLECT DIFFERENCES IN QUALITY BY RATING NOTCH**
- 7. INTERNAL CREDIT ASSESSMENTS AND CREDIT RATINGS**
- 8. ADDITIONS TO THE FUNDAMENTAL SPREAD IN RESPECT OF ASSETS WITH CASH-FLOWS THAT ARE HIGHLY PREDICTABLE**
- 9. ATTESTATION REQUIREMENTS**
- 10. INTERNAL GOVERNANCE FOR THE ATTESTATION**
- 11. DISCLOSURE OF THE ATTESTATION**
- 12. FORM OF THE ATTESTATION**
- 13. ON-GOING COMPLIANCE WITH ELIGIBILITY CONDITIONS**

## 1 APPLICATION AND DEFINITIONS

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1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*;
- (2) in accordance with Insurance General Application 3, the *Society*; and
- (3) in accordance with Insurance General Application 3, *managing agents*.

## 2 ELIGIBILITY TO APPLY A MATCHING ADJUSTMENT

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2.1 A *firm* must not apply a *matching adjustment* to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations unless it has a *matching adjustment permission*.

2.2 The conditions referred to in regulation [x] of the *MA regulations* are:

- (1) the contracts underlying the *relevant portfolio of insurance or reinsurance obligations* do not give rise to future premium payments;
- (2) the only *underwriting risks* connected to the *relevant portfolio of insurance or reinsurance obligations* are *longevity risk, life expense risk, revision risk, mortality risk* or *recovery time risk*;
- (3) where the *underwriting risk* connected to the *relevant portfolio of insurance or reinsurance obligations* includes *mortality risk*, the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations* does not increase by more than 5% under a *mortality risk* stress that is calibrated in accordance with Chapter 3 of the Solvency Capital Requirement – General Provisions Part and otherwise complies with 2.4;
- (4) the contracts underlying the *relevant portfolio of insurance or reinsurance obligations* include:
  - (a) no options for the *policyholder*; or
  - (b) only a surrender option with a *surrender value* not exceeding the value of the assets, valued in accordance with Valuation 2.1 and 2.2, covering the insurance or *reinsurance* obligations at the time the surrender option is exercised;
- (5) the *relevant portfolio of assets* cannot be used to cover losses arising from the other activities of the *firm*; and
- (6) the *relevant portfolio of assets* and each individual asset contained in it meets the requirements of the prudent person principle contained in Chapters 2 and 3 of the Investments Part.

2.3 For the purposes of this Part, the insurance or *reinsurance* obligations of an insurance or *reinsurance* contract must not be split into different parts when composing the *relevant portfolio of insurance or reinsurance obligations*, other than in respect of a portion of insurance or *reinsurance* obligations forming part of a wider *contract of insurance or reinsurance contract* and which:

- (1) comprises the guaranteed element of a *with-profits policy* that is either an immediate annuity or a deferred annuity, where the element can be organised and managed separately in accordance with regulation [x] of the *MA regulations*; and
- (2) would otherwise meet the *matching adjustment eligibility conditions*, but for the fact that it forms part of a *contract of insurance or reinsurance contract* which does not so comply, when taken as a whole.

## 2.4

- (1) The *mortality risk* stress referred to in 2.2(3) shall be the more adverse of the following two scenarios in terms of its impact on *basic own funds*:
  - (a) an instantaneous permanent increase of 15% in the mortality rates used for the calculation of the *best estimate*; or
  - (b) an instantaneous increase of 0.15 percentage points in the mortality rates (expressed as percentages) which are used in the calculation of *technical provisions* to reflect the mortality experience in the following 12 months.
- (2) For the purpose of paragraph (1) the increase in mortality rates shall only apply to those *policies* for which the increase in mortality rates leads to an increase in *technical provisions*, taking into account the following:
  - (a) multiple *policies* in respect of the same insured person may be treated as if they were one *policy*; and
  - (b) where the calculation of *technical provisions* is based on groups of *policies* as referred to in Article 35 of Commission Delegated Regulation (Solvency II) 2015/35, the identification of the *policies* for which *technical provisions* increase under an increase of mortality rates may also be based on those groups of *policies* instead of single *policies*, provided that it yields a result which is not materially different.
- (3) With regard to *reinsurance* obligations, the identification of the *policies* for which *technical provisions* increase under an increase of mortality rates shall apply to the underlying insurance *policies* only and shall be carried out in accordance with paragraph (2).

[Note: In accordance with regulation [x] of the *MA regulations*, this Chapter sets out *matching adjustment eligibility conditions* in addition to those set out in regulation [x] of the *MA regulations*, under which a *firm* is eligible to apply a *matching adjustment*.]

### 3 MATCHING ADJUSTMENT PERMISSIONS

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- 3.1 A *firm* making a *matching adjustment permission application* must confirm to the *PRA* in writing and submit, as a minimum, documentary evidence that demonstrates to the *PRA*'s satisfaction, that the *relevant portfolio of assets* and *relevant portfolio of insurance or reinsurance obligations*, and, if the context requires, the *firm*, satisfies the *matching adjustment eligibility conditions*.
- 3.2 A *firm* that applies the *matching adjustment* to a *relevant portfolio of insurance or reinsurance obligations* must not revert back to the approach that does not include a *matching adjustment*.

### 4 CALCULATION OF THE MATCHING ADJUSTMENT

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- 4.1 This Chapter applies to a *firm* that has been granted a *matching adjustment permission*.
- 4.2 A *firm* with a *matching adjustment permission* must calculate the *matching adjustment* in accordance with 4.3 to 4.8.
- 4.3 For each currency the *matching adjustment* must be equal to the difference of:
  - (1) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the portfolio of assigned assets; and
  - (2) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the *relevant portfolio of insurance or*



*reinsurance obligations* where the time value of money is taken into account using the *basic relevant risk-free interest rate term structure*.

- 4.4 For the purpose of the calculation referred to in 4.3:
- (1) 'assigned assets' only includes assets whose expected cash-flows are required to replicate the cash-flows of the *relevant portfolio of insurance and reinsurance obligations*, excluding any assets in excess of that;
  - (2) valuations must be calculated in accordance with the Valuation Part.
- 4.5 In 4.4(1), the 'expected cash-flow' of an asset means the cash-flow of the asset adjusted to allow for the probability of default of the asset that corresponds to the element of the fundamental spread set out in 4.10(1) or, where no reliable credit spread can be derived from the default statistics, the portion of the long term average of the spread over the *basic relevant risk-free interest rate term structure* (as provided in 4.11 and 4.12).
- 4.6 The *matching adjustment* must not include the fundamental spread (as calculated in accordance with 4.10 to 4.17) reflecting the risks retained by the *firm*.
- 4.7 The deduction of the fundamental spread under 4.6 from the result of the calculation set out in 4.3 must include only the portion of the fundamental spread that has not already been reflected in the adjustment to the cash-flows of the assigned portfolio of assets in accordance with 4.3 to 4.5.
- 4.8 The fundamental spread referred to in 4.6 and 4.7 must be calculated in a transparent, prudent, reliable and objective manner that is consistent over time and based on relevant indices where available.
- 4.9 The fundamental spread must be calculated in accordance with 4.10 to 4.17.
- 4.10 The fundamental spread must be equal to the sum of the following:
- (1) the credit spread corresponding to the probability of default of the assets; and
  - (2) the credit spread corresponding to the expected loss resulting from downgrading of the assets.
- 4.11 For exposures to the central government of the *United Kingdom* and the *Bank of England*, where the fundamental spread would otherwise be lower than 30% of the long-term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets (the 'average spread'), the fundamental spread must be 30% of the average spread.
- 4.12 For assets other than exposures to the central government of the *United Kingdom* and the *Bank of England*, where the fundamental spread would otherwise be lower than 35% of the long-term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets (the 'average spread'), the fundamental spread must be 35% of the average spread.
- 4.13 For the purposes of 4.10 to 4.12:
- (1) the calculation of the 'credit spread' must be based on the assumption that in case of default 30% of the market value of the assets can be recovered;
  - (2) the 'probability of default' must be based on long-term default statistics that are relevant for the asset in relation to its duration, credit quality and asset class;
  - (3) the 'expected loss' must be based on long-term statistics that are relevant to changes in the credit quality of the asset and correspond to the probability-weighted loss the *firm* incurs where the asset is downgraded to a lower credit quality and is replaced immediately

afterwards, and the calculation of the expected loss must be based on the assumption that the replacing asset meets all of the following criteria:

- (a) the replacing asset has the same cash-flow pattern as the replaced asset before downgrade;
  - (b) the replacing asset belongs to the same asset class as the replaced asset; and
  - (c) the replacing asset has the same credit quality as the replaced asset before downgrade or a higher one;
- (4) the ‘long-term average of the spread over the risk-free interest rate’ must be based on data relating to the previous 30 years;
- (5) the methods to derive the fundamental spread of a bond must be the same for each currency and each country and may be different for government bonds and for other bonds.
- 4.14 For the purposes of 4.13(2) and (3), where no reliable credit spread can be derived from the default statistics, the fundamental spread must be equal to the portion of the long-term average of the spread over the risk-free interest rate set out in 4.11 or 4.12.
- 4.15 Where part of the data referred to in 4.13(4) is not available or where the available data is not reliable, constructed data based on prudent assumptions may be used; and the constructed data must be based on available and reliable data relating to the previous 30 years.
- 4.16 A *firm* must increase the fundamental spread calculated under 4.10 to 4.15 in accordance with 8.2.
- 4.17 A *firm* may increase the fundamental spread calculated under 4.10 to 4.16 where necessary to ensure it covers all risks retained by the *firm*.

[Note: This Chapter replicates the provisions for the calculation of the *matching adjustment* and fundamental spread contained in regulation [x] of the *MA regulations*.

Note: The *MA regulations* refer to the ‘assigned portfolio of assets’. This has the same meaning as the *relevant portfolio of assets*, except for regulation [x] and replicated in 4.7 where the ‘assigned portfolio of assets’ is referring to *assigned assets* as set out at 4.3 and 4.4.]

## 5 ASSETS WITH CASH-FLOWS THAT ARE NOT FIXED

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- 5.1 For the purpose, and without limiting the generality, of the condition in regulation [x] of the *MA regulations*, assets with *cash-flows that are not fixed* are only capable of being included in a *firm’s relevant portfolio of assets* without giving rise to material risks to the quality of matching if the *cash-flows that are not fixed* are *highly predictable*.
- 5.2 For the purposes of the condition in regulation [x] of the *MA regulations*, the proportion of a *firm’s relevant portfolio of assets* that is comprised of assets with *highly predictable* cash-flows that satisfy the condition in regulation [x] of the *MA regulations* is subject to the following limits:
- (1) no more than 10% of the *matching adjustment* benefit is attributable to an asset with *highly predictable* cash-flows, either on its own or when taken together with other assets with *highly predictable* cash-flows in the *relevant portfolio of assets*; and
  - (2) any applicable *exposure limit*.
- 5.3 The cash-flows of an asset are *highly predictable* for the purposes of 5.1 where:
- (1) the contractual terms of the asset provide for a bounded range of variability in respect of the timing and amount of the cash-flows; and
  - (2) failure to meet such contractual terms is a *default*.

- 5.4 In assessing asset cash-flows for the purposes of 5.3, a *firm* must:
- (1) base the best estimate of the cash-flows on the contractual payments of the asset;
  - (2) use assumptions consistent with the economics of the asset; and
  - (3) where expert judgment is used in determining the cash-flows, ensure that it is subject to the level of controls specified in Article 2 of Commission Delegated Regulation (Solvency II) 2015/35.
- 5.5 For the purposes of 5.2(1), the *matching adjustment* benefit means, where a *firm* has a *matching adjustment permission*, an amount equal to the impact on its *best estimate* of the scenario set out in Conditions Governing Business 3.2(2)(c) (and for the purposes of this calculation, ignoring any impact of 13.5).

## 6 REQUIREMENT FOR THE FUNDAMENTAL SPREAD TO REFLECT DIFFERENCES IN QUALITY BY RATING NOTCH

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- 6.1 Where an *assigned asset* has a *credit rating* or internal credit assessment of a comparable standard (within the meaning of 7.1(1)) mapping to *credit quality steps* 1 to 5 (inclusive), a *firm* must make an adjustment to the fundamental spread derived from the *credit quality step* attributed to that asset in order to reflect the corresponding *rating notch*, in accordance with 6.3 and 6.4.
- 6.2 The requirement under 6.1 does not apply in the circumstances described in 6.5.
- 6.3 A *firm* must derive the adjustment referred to in 6.1 for at least:
- (1) the probability of default referred to in 4.5; and
  - (2) the overall fundamental spread,
- in each case, applicable to the cash-flows of that asset.
- 6.4 A *firm* must:
- (1) derive the adjustments referred to in 6.3 using linear interpolation of the information published by the *PRA* under regulation [x] of the *MA regulations*;
  - (2) use linear interpolation for each consecutive *credit quality step pair*; and
  - (3) assume for the purposes of this Chapter that each intermediate *rating notch* is evenly spread between each consecutive *credit quality step pair*.
- 6.5 Where there is no *rating notch* available for a particular asset falling within the scope of 6.1:
- (1) a *firm* must not adjust the fundamental spread (or component thereof) applied to the cash-flows of that asset, other than to account for additions to the fundamental spread in accordance with 4.16 and/or 4.17 (as applicable); and
  - (2) a *firm* must consider the appropriateness of the fundamental spread and *matching adjustment* in respect of that asset as part of its analysis and verification process and policy under Chapter 10, in relation to the attestation made under Chapter 9.

## 7 INTERNAL CREDIT ASSESSMENTS AND CREDIT RATINGS

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- 7.1 Where a *firm* uses any internal credit assessment of assets within the *relevant portfolio of assets*, the *firm* must ensure on an ongoing basis:
- (1) that, as required by regulation [x] of the *MA regulations*, such internal credit assessment is of a comparable standard to a *credit rating*; and
  - (2) the appropriateness of:

- (a) its process to produce such internal credit assessments; and
  - (b) the outcomes of such internal credit assessments.
- 7.2 For the purposes of 7.1, the *firm* must ensure at a minimum that:
- (1) the internal credit assessments have considered all possible sources of *credit risk*, both qualitative and quantitative, and how these types of *credit risk* may interact;
  - (2) the internal credit assessment outcomes lie within a plausible range of issue ratings that could have resulted from a *credit rating agency*;
  - (3) both at the level of the *relevant portfolio of assets* and of each *asset type*, there is broad consistency and no bias between:
    - (a) internal credit assessment outcomes, and
    - (b) issue ratings that could have resulted from a *credit rating agency*;
  - (4) the internal credit assessment process is subject to appropriate validation, and appropriate assessment of its on-going appropriateness;
  - (5) the *firm* has obtained proportionate independent external assurance in respect of 7.2(2); and
  - (6) the *firm's* internal credit assessment function is independent and there are effective controls to manage any potential conflicts of interest.
- 7.3 Upon request, the *firm* must demonstrate its compliance with 7.1 to the *PRA*.
- 7.4 The use of *credit ratings* in the calculation of the *matching adjustment* shall be in line with the specifications set out in Articles 4 - 6 of the Commission Delegated Regulation (EU) 2015/35 and Binding Technical Standard 2016/1800.

## **8 ADDITIONS TO THE FUNDAMENTAL SPREAD IN RESPECT OF ASSETS WITH CASH-FLOWS THAT ARE HIGHLY PREDICTABLE**

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- 8.1 A *firm* must identify all sources of uncertainty regarding the timing and amount of cash-flows from any asset in the *relevant portfolio of assets* with cash-flows that are *highly predictable*.
- 8.2 A *firm* must add to the fundamental spread an amount that reflects the risks arising from the uncertainties identified in accordance with 8.1 to ensure that the fundamental spread reflects risks retained by the *firm* in accordance with 4.6.

## **9 ATTESTATION REQUIREMENTS**

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- 9.1 A *firm* must provide to the *PRA* the attestation set out at (1) at the time set out in (2) by a person in (3) in the form set out in 12.1 in respect of each *relevant portfolio of assets* as a whole held by the *firm*.
- (1) The attestation is that, as at the effective date of the *firm's* *SFCR*:
    - (a) the fundamental spread used by the *firm* in calculating the *matching adjustment* reflects compensation for all retained risks in accordance with 4.6; and
    - (b) the *matching adjustment* can be earned with a high degree of confidence from the assets held in the *relevant portfolio of assets*.
  - (2) The attestation must be provided:
    - (a) annually, no later than 14 weeks after the *firm's* financial year end to which it relates; and

- (b) as soon as is reasonably practicable after a material change in the risk profile of the *firm*.
- (3) The attestation must be provided by the *PRA senior management function holder* in the *firm* responsible for the *prescribed responsibility* of the production and integrity of the *firm's* financial information and its regulatory reporting (PR Q), as provided for in Insurance – Allocation of Responsibilities 3.1(4).

## 10 INTERNAL GOVERNANCE FOR THE ATTESTATION

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- 10.1 Before providing any attestation in accordance with 9.1, a *firm* must analyse and justify that the fundamental spread used by the *firm* reflects compensation for all retained risks, and that the *matching adjustment* can be earned with a high degree of confidence from the assets held in the *relevant portfolio of assets*.
- 10.2 A *firm* must have in place appropriate internal processes, systems and controls to allow it to produce the analysis and justification required by 10.1.
- 10.3 A *firm* must put in place and maintain a policy on providing the attestation at 9.1 and the analysis and justification required in 10.1 and must ensure that its *governing body* has approved that policy.

## 11 DISCLOSURE OF THE ATTESTATION

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- 11.1 A *firm* must disclose in its *SFCR* whether it has or has not provided the attestation in accordance with 9.1 in respect of the financial year to which that *SFCR* relates.

## 12 FORM OF THE ATTESTATION

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- 12.1 The attestation must be:
  - (1) provided in the form of an attestation document and which must include the information set out at 12.2; and
  - (2) accompanied by a supporting attestation report as set out at 12.3.
- 12.2 The attestation document must include:
  - (1) the attestation in 9.1;
  - (2) the name and role of the *PRA senior management function holder* giving the attestation;
  - (3) the *relevant portfolio of assets* to which the attestation applies; and
  - (4) the date of the attestation.
- 12.3 The supporting attestation report must include the following information:
  - (1) either:
    - (a) a copy of the latest version of the policy referred to in 10.3; or
    - (b) confirmation that such policy has not been updated since it was last provided to the *PRA*;
  - (2) confirmation that the *firm* and attestor complied with the terms of the policy referred to in 10.3 in making the attestation, or if not:
    - (a) details of the alternative approach followed by the *firm* and the attestor; and
    - (b) an explanation as to why this occurred;
  - (3) a list detailing the evidence the attestor relied on in making the attestation; and

- (4) in relation to any increase(s) in the fundamental spread that the *firm* has elected to use in accordance with 4.17, a list of:
- (a) all assets in each *relevant portfolio of assets* to which these apply;
  - (b) the reasons for the increase(s); and
  - (c) the amount of the increase(s) and the *matching adjustment* resulting from those assets,
- as at the effective date of the *firm's SFCR*.

### 13 ON-GOING COMPLIANCE WITH ELIGIBILITY CONDITIONS

---

- 13.1 This Chapter applies to a *firm* that has been granted a *matching adjustment permission*.
- 13.2 A *firm* with a *matching adjustment permission* must comply with the *matching adjustment eligibility conditions* and the terms of its *matching adjustment permission* (including any applicable *exposure limits*) at all times.
- 13.3 A *firm* that applies the *matching adjustment* to a *relevant portfolio of insurance or reinsurance obligations* must not apply a *risk-free interest rate transitional measure* or *volatility adjustment* in respect of those obligations.
- 13.4 Where a *firm* that applies the *matching adjustment* is no longer able to comply with the *matching adjustment eligibility conditions*, it must immediately:
- (1) inform the *PRA*; and
  - (2) take the necessary measures to restore compliance with these conditions as soon as possible.
- 13.5 Where a *firm* is not able to restore compliance with the *matching adjustment eligibility conditions* within two *months* of the date of non-compliance it must then, on a monthly basis and for the duration of the period of non-compliance, adjust the *matching adjustment* it applies in respect of the *relevant portfolio or insurance or reinsurance obligations* according to the following formula:

$$MA^* = MA - (n - 1) \times p \times \max \{MA, 0\}$$

where:

- (1)  $MA^*$  is the reduced *matching adjustment* applied to the *relevant portfolio of insurance or reinsurance obligations*;
- (2)  $MA$  is the *matching adjustment*, where the *matching adjustment* is calculated assuming no restrictions relating to the breach of *matching adjustment eligibility conditions*;
- (3)  $n$  is the whole number of months since the date of non-compliance, and shall not be greater than 11; and
- (4)  $p$  is 10%.

## Annex C

### Amendments to the Technical Provisions Part

In this Annex new text is underlined and deleted text is struck through

Part

# TECHNICAL PROVISIONS

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## Chapter content

...

6. MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM  
STRUCTURE [DELETED]
7. CALCULATION OF THE MATCHING ADJUSTMENT [DELETED]

...

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

~~basic relevant risk-free interest rate term structure~~

~~means the relevant risk-free interest rate term structure without:~~

~~(1) a matching adjustment;~~

~~(2) a volatility adjustment; or~~

~~(3) a risk-free interest rate transitional measure.~~

...

~~relevant portfolio of assets~~

~~means the assigned portfolio of assets, consisting of bonds and other assets with similar cash-flow characteristics, to cover the best estimate of the relevant portfolio of insurance or reinsurance obligations, referred to in regulation 42(4)(a) and (b) of the Solvency 2 Regulations 2015.~~

...

## 6 MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM STRUCTURE [DELETED]

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6.1 ~~A firm must not apply a matching adjustment to the relevant risk-free interest rate term structure to calculate the best estimate of its insurance or reinsurance obligations unless it has a matching adjustment approval.~~[Deleted]

6.2 ~~Firms that apply the matching adjustment to a relevant portfolio of insurance or reinsurance obligations shall not revert back to the approach that does not include a matching adjustment.~~[Deleted]

6.3 ~~Where a firm that applies the matching adjustment is no longer able to comply with the conditions specified in regulation 42(4) to (6) of the Solvency 2 Regulations 2015, it shall immediately:~~

~~(1) inform the PRA; and~~

~~(2) take the necessary measures to restore compliance with these conditions as soon as possible.~~[Deleted]

6.4 ~~Where a firm is not able to restore compliance with the conditions referred to in 6.3 within two months of the date of non-compliance, it shall cease to apply the matching adjustment to any of its insurance or reinsurance obligations.~~[Deleted]

~~[Note: Art. 77b of the Solvency II Directive]~~

## 7 CALCULATION OF THE MATCHING ADJUSTMENT [DELETED]

---

7.1 ~~This Chapter applies to a firm that has been granted a matching adjustment approval.~~[Deleted]

7.2 ~~The matching adjustment shall be calculated for each currency in accordance with the following principles:~~

~~(1) the matching adjustment shall be equal to the difference of the following:~~



- ~~(a) the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value (in accordance with the Valuation Part of the *PRA Rulebook*) of the *relevant portfolio of assets*;~~
  - ~~(b) the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations*, where the time value is taken into account using the *basic relevant risk-free interest rate term structure*;~~
  - ~~(2) the *matching adjustment* shall not include the fundamental spread reflecting the risks retained by the firm;~~
  - ~~(3) notwithstanding (1), the fundamental spread shall be increased where necessary to ensure that the *matching adjustment* for assets with sub-investment grade credit quality does not exceed the *matching adjustment* for assets of investment grade quality, of the same duration and asset class; and~~
  - ~~(4) the use of external credit assessments in the calculation of the *matching adjustment* shall be in line with the specifications set out in the *Solvency II Regulations*.~~[Deleted]~~~~
- 7.3 For the purposes of 7.2(2) and subject to 7.5, the fundamental spread shall be:
- ~~(1) equal to the sum of the following:
    - ~~(a) the credit spread corresponding to the probability of default of the assets; and~~
    - ~~(b) the credit spread corresponding to the expected loss resulting from downgrading of the assets;~~~~
  - ~~(2) for exposures to the *UK's* central government and central bank, no lower than 30% of the long term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;~~
  - ~~(3) for assets other than exposures to the *UK's* central government and central bank, no lower than 35% of the long term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;~~[Deleted]~~~~
- 7.4 The probability of default referred to in 7.3(1)(a) shall be based on long-term default statistics that are relevant for the asset in relation to its duration, credit quality and asset class.~~[Deleted]~~
- 7.5 Where no reliable credit spread can be derived from the default statistics referred to in 7.3, the fundamental spread shall be equal to the portion of the long term average of the spread over the risk-free interest rate set out in 7.3(2) and 7.3(3).~~[Deleted]~~
- [Note: Art. 77c and Art. 77e(3) of the *Solvency II Directive*]

...

## Annex D

### Amendments to the Conditions Governing Business Part

In this Annex new text is underlined and deleted text is struck through.

...

#### **3 RISK MANAGEMENT**

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##### 3.1

...

(4) Where a *firm* applies the *matching adjustment*, the *firm* must manage any risks that are identified in the analysis undertaken in accordance with Matching Adjustment 10.1.

~~[Note: Art. 44(1)-(2) of the Solvency II Directive]~~

...

## Annex E

### Amendments to the Reporting Part

In this Annex new text is underlined and deleted text is struck through.

*Note: The changes being consulted on in this CP are highlighted in blue. Other changes to the Reporting Part, which are not highlighted, were consulted on in each of CP 14/22 (Review of Solvency II: Reporting phase 2) and CP 12/23 (Review of Solvency II: Adapting to the UK insurance market). These are shown for context but are not within the scope of this consultation.*

Part

## REPORTING

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### Chapter content

...

ARTICLE 18 ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

ARTICLE 18A ANNUAL TEMPLATES FOR INDIVIDUAL FIRMS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION

...

ARTICLE 43 ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS- RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

ARTICLE 43A ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION

...

ARTICLE 48 ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES- RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION

ARTICLE 48A ANNUAL TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION

...

## 1. APPLICATION AND DEFINITIONS

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1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II* firm; ~~and~~
- (2) in accordance with General Application 3 and Group Supervision 1.1(2), the *Society*;
- (3) in accordance with General Application 3, *managing agents*, for the purposes of 7<sub>i</sub>;
- (4) a *UK holding company*<sup>1</sup>; and
- (5) a third country branch undertaking (other than a Swiss general insurer), in accordance with 1.3.

1.2 In this Part, the following definitions shall apply:

...

CIC code

means Complementary Identification Code.

...

1.3

- (1) In this Part, 2.1 to 2.5B, 2.7, 2.8A, 2.9, 2.13 and 2.14 and Articles 1 to 4 and 37 to 50 of Chapter 2A apply to third country branch undertakings (other than Swiss general insurers).
- (2) Except in respect of 2.2(2)(f) and Articles 49 and 50 of Chapter 2A, a third country branch undertaking must fulfil the applicable requirements in this Part taking account only of matters relevant to the operations effected by the third country branch.
- (3) In relation to third country branch undertakings, 2.2(2)(f) is to be read as referring only to the adequacy of the financial resources of the firm.

## 2. REPORTING TO THE PRA

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...

2.2 The information referred to in 2.1 must:

- (1) be submitted in the applicable format or template (if any) provided in the *Solvency II Regulations* ~~or the Reporting Part of the PRA Rulebook~~ ~~or in the form of any national specific template~~ where applicable; and

...

2.5A As part of the information referred to in 2.1, a firm is required to submit to the PRA on a regular basis:

- (1) the SFCR (if applicable) to be disclosed in accordance with Chapters 3 to 6, together with any equivalent information disclosed publicly under other legal or regulatory requirements to which the SFCR refers;
- (2) the following reports:
  - (a) a report comprising the results of each ORSA performed, in accordance with Conditions Governing Business 3.8 to 3.11;

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<sup>1</sup> Please note that CP 14/22 (Review of Solvency II: Reporting phase 2) consulted on moving the definition of *UK holding company* to the Glossary from the Group Supervision part.

- (b) if the firm is a third country branch undertaking, a resolution report in accordance with Article 50 of Chapter 2A;
  - (c) for firms using an internal model, the qualitative information supporting template QMC.01 in accordance with Article 6(2) of Chapter 2A; and
  - (d) for firms using an internal model, the qualitative analysis supporting template A0C.01 in accordance with Articles 19 and 35 of Chapter 2A; and
  - (e) for firms who have matching adjustment permission, the matching adjustment asset and liability information template [insert MALIR reference] in accordance with Articles 18A, 43A and 48A of Chapter 2A;
- (3) annual, semi-annual and quarterly quantitative templates in accordance with 2.6, 2.8, 2.8A and Chapter 2A.

#### 2.5B<sup>2</sup>

- (1) A firm must submit the ORSA report referred to in 2.5A(2)(a) within 10 business days after concluding the ORSA.
- (2) A firm must submit the quarterly quantitative reporting templates referred to in Articles 6 and 37 of Chapter 2A, the qualitative information supporting template QMC.01 referred to in Article 6(2) of Chapter 2A and the quarterly national specific template referred to in 2.8 no later than 30 business days after the end of each quarter of the firm's financial year.
- (3) A firm must submit the semi-annual quantitative reporting templates referred to in Articles 7A and 38 of Chapter 2A no later than 30 business days after the end of each half of the firm's financial year.
- (4) A firm must submit the annual quantitative reporting templates referred to in Articles 8 to 18, Article 20 and Articles 39 to 49 of Chapter 2A and the annual national specific templates referred to in 2.6, 2.8 and 2.8A no later than 70 business days after the firm's financial year end.
- (5) A firm must submit the quarterly quantitative reporting templates referred to in Article 23 of Chapter 2A no later than 55 business days after the end of each quarter of the group's financial year.
- (6) A firm must submit the annual quantitative reporting templates referred to in Articles 25 to 34 of Chapter 2A no later than 100 business days after the group's financial year end.
- (7) A firm must submit annual quantitative reporting template AoC.01, and the qualitative analysis supporting template AoC.01, referred to in Article 19 of Chapter 2A no later than 70 business days after the firm's financial year end, commencing with the firm's first financial year end on or after 31 December 2025 or, if the firm first receives an internal model permission which takes effect after 31 December 2025, commencing with the firm's first financial year end after the date that internal model permission took effect.
- (8) A firm must submit annual quantitative reporting template AoC.01, and the qualitative analysis supporting template AoC.01, referred to in Article 35 of Chapter 2A no later than 100 business days after the group's financial year end, commencing with the group's first financial year end on or after 31 December 2025, or, if the group first receives an internal model permission which takes effect after 31 December 2025, commencing with the group's first financial year end after the date that internal model permission took effect.

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<sup>2</sup> There will be further consultation on the deadline for submission of the SFCR at a later date.

(9) A third country branch undertaking must submit the resolution report referred to in Article 50(1) of Chapter 2A no later than 70 business days after (i) the firm's first financial year end on or after 31 December 2024; and (ii) every third financial year end thereafter.

(10) A firm must submit the matching adjustment asset and liability information template [insert MALIR reference] referred to in Articles 18A, 43A and 48A of Chapter 2A no later than 130 business days, after the firm's financial year end commencing with (i) the firm's first financial year end on or after 31 December 2024; or (ii) if later, the firm's first financial year end after the date that the firm's matching adjustment permission took effect.

...

2.13

(1) A firm, other than a friendly society, shall submit to the PRA, the information referred to in 2.5A(2) and (3) the national specific templates referred to in 2.6 and 2.8 in electronic format.

...

## **2A REPORTING TO THE PRA: TECHNICAL STANDARDS**

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### **I: GENERAL PROVISIONS AND SUPERVISORY REPORTING REQUIREMENTS**

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#### **ARTICLE 1: APPLICATION**

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1. Articles 6 to 21 of this Chapter apply to firms other than third country branch undertakings.
2. Articles 23 to 36 of this Chapter apply to:
  - (a) firms or, where applicable, UK holding companies which are part of a group falling within Group Supervision 2.1(1) or Group Supervision 2.1(2), which are required to report information on a group to the PRA under the Group Supervision Part; and
  - (b) firms or, where applicable, UK holding companies which are part of a group under Group Supervision 2.1(3) in accordance with Group Supervision 20, which are required to report information on a group to the PRA under the Group Supervision Part.
3. Articles 37 to 50 of this Chapter apply to third country branch undertakings (other than Swiss general insurers).

#### **ARTICLE 2: SUPERVISORY REPORTING FORMATS**

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1. Firms and, where applicable, UK holding companies, shall submit the information referred to in this Chapter in the appropriate data exchange formats and representations [determined in accordance with the Solvency II Regulations], the Reporting Part and the following specifications:
  - (a) data points with the data type 'monetary' shall be expressed in units with no decimals with the exception of templates S.06.02, S.08.01, and S.11.01, which shall be expressed in units with two decimals;
  - (b) data points with the data type 'percentage' shall be expressed as per unit with four decimals;
  - (c) data points with the data type 'integer' shall be expressed in units with no decimals;
  - (d) all data points shall be expressed as positive values except in the following cases:

- (i) they are of an opposite nature from the natural amount of the item;
- (ii) the nature of the data point allows for positive and negative values to be reported;
- (iii) a different reporting format is required by the respective instructions set out in the Annexes.

...

#### **ARTICLE 4: RE-SUBMISSION OF DATA**

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Firms and, where applicable, UK holding companies shall re-submit as soon as practicable the information reported using the reports and templates referred to in this Chapter when the information originally reported has materially changed in relation to the same reporting period after the last submission to the PRA.

#### **ARTICLE 4A: MATERIALITY**

---

For the purposes of this Chapter, information to be submitted to the PRA in a report shall be considered material where its omission or misstatement could influence the decision-making or judgement of the PRA, and changes to information submitted to the PRA in a report or template shall be considered material if the change could influence the decision-making or judgement of the PRA.

#### **II: REPORTING TEMPLATES FOR INDIVIDUAL FIRMS**

...

#### **ARTICLE 8: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - BASIC INFORMATION AND CONTENT OF SUBMISSION**

---

1. Firms shall submit information to the PRA annually using the following templates (as applicable):
  - (a) template S.01.01.01 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 10;
  - (b) template S.01.02.01 of Chapter 9, specifying basic information on the firm and the content of the reporting in general, following the instructions set out in section S.01.02 of Chapter 10; and
  - (c) template S.01.03.01 of Chapter 9, specifying basic information on the ring-fenced funds and matching adjustment portfolios, following the instructions set out in section S.01.03 of Chapter 10.

...

#### **ARTICLE 14: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - SOLVENCY CAPITAL REQUIREMENT INFORMATION**

---

1. Firms shall submit information to the PRA annually using the following templates (as applicable):
  - (a) template S.25.04.01 of Chapter 9, specifying information in relation to the calculation of the SCR, following the instructions set out in section S.25.04 of Chapter 10;
  - (b) where the firm uses a full internal model or a partial internal model, template S.25.05.01, specifying information in relation to the calculation of the SCR, following the instructions set out in section S.25.05 of Chapter 10;

- (c) template S.25.06.01, specifying the SCR – loss-absorbing capacity of deferred tax, following the instructions set out in S.25.06 of Chapter 10;
  - (d) template S.26.01.01 of Chapter 9, specifying information on *market risk*, following the instructions set out in section S.26.01 of Chapter 10;
  - (e) template S.26.02.01 of Chapter 9, specifying information on counterparty default risk, following the instructions set out in section S.26.02 of Chapter 10;
  - (f) template S.26.03.01 of Chapter 9, specifying information on life *underwriting risk*, following the instructions set out in section S.26.03 of Chapter 10;
  - (g) template S.26.04.01 of Chapter 9, specifying information on health *underwriting risk*, following the instructions set out in section S.26.04 of Chapter 10;
  - (h) template S.26.05.01 of Chapter 9, specifying information on non-life *underwriting risk*, following the instructions set out in section S.26.05 of Chapter 10;
  - (i) template S.26.06.01 of Chapter 9, specifying information on *operational risk*, following the instructions set out in section S.26.06 of Chapter 10;
  - (j) template S.26.07.01 of Chapter 9, specifying information on the simplifications used in the calculation of the SCR, following the instructions set out in section S.26.07 of Chapter 10;
  - (k) template S.27.01.01 of Chapter 9, specifying information on SCR (non-life and health catastrophe risk), following the instructions set out in section S.27.01 of Chapter 10.
2. In relation to ring-fenced funds or *matching adjustment portfolios*, the templates referred to in points (d) to (k) of paragraph 1 shall not be reported for the entity as a whole.
  3. Where a *partial internal model* is used, the templates referred to in points (d) to (k) of paragraph 1 shall only be reported in relation to the risks covered by the *standard formula*.
  4. Where a full *internal model* is used, the templates referred to in points (d) to (k) of paragraph 1 shall not be reported.

...

#### **ARTICLE 18: ANNUAL QUANTITATIVE TEMPLATES FOR INDIVIDUAL FIRMS - RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION**

1. Firms shall submit information in relation to each ring-fenced fund, each *matching adjustment portfolio* and the remaining part to the PRA annually using the following templates (as applicable):
  - (a) template SR.01.01.01 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 10;
  - (b) template SR.02.01.01 of Chapter 9, specifying balance sheet information using both the valuation in accordance with [Valuation 2.1-2.2 and Chapter II of Title I of the *delegated act*] and the valuation following the *firm's* financial statements, following the instructions set out in section S.02.01 of Chapter 10;
  - (c) template SR.12.01.01 of Chapter 9, specifying information on *technical provisions* (life and health SLT), following the instructions set out in section S.12.01 of Chapter 10;
  - (d) template SR.17.01.01 of Chapter 9, specifying information on non-life *technical provisions* for each *line of business* following the instructions set out in section S.17.01 of Chapter 10;
  - (e) template SR.22.02.01 of Chapter 9, specifying information on the projection of future *cash-flows* for the *best estimate* calculation by each *matching adjustment portfolio*, following the instructions set out in section S.22.02 of Chapter 10;



- (f) template SR.22.03.01 of Chapter 9, specifying information on the *matching adjustment portfolios* by each *matching adjustment portfolio*, following the instructions set out in section S.22.03 of Chapter 10;
  - (g) template SR.25.04.01 of Chapter 9, specifying information in relation to the calculation of the notional SCR (ring-fenced funds, *matching adjustment portfolios* and remaining part), following the instructions set out in section S.25.04 of Chapter 10;
  - (h) where the *firm* uses a full *internal model* or a *partial internal model*, template SR.25.05.01 of Chapter 9, specifying information on the notional SCR–(ring-fenced funds, *matching adjustment portfolios*, remaining part), following the instructions set out in section S.25.05 of Chapter 10;
  - (i) [Note: Provision left blank];
  - (j) template SR.26.01.01 of Chapter 9, specifying information on *market risk*, following the instructions set out in section S.26.01 of Chapter 10;
  - (k) template SR.26.02.01 of Chapter 9, specifying information on counterparty default risk, following the instructions set out in section S.26.02 of Chapter 10;
  - (l) template SR.26.03.01 of Chapter 9, specifying information on life *underwriting risk*, following the instructions set out in section S.26.03 of Chapter 10;
  - (m) template SR.26.04.01 of Chapter 9, specifying information on health *underwriting risk*, following the instructions set out in section S.26.04 of Chapter 10;
  - (n) template SR.26.05.01 of Chapter 9, specifying information on non-life *underwriting risk*, following the instructions set out in section S.26.05 of Chapter 10;
  - (o) template SR.26.06.01 of Chapter 9, specifying information on *operational risk*, following the instructions set out in section S.26.06 of Chapter 10;
  - (p) template SR.26.07.01 of Chapter 9, specifying information on the simplifications used in the calculation of the notional SCR, following the instructions set out in section S.26.07 of Chapter 10;
  - (q) template SR.27.01.01 of Chapter 9, specifying information on notional SCR (non-life and health catastrophe risk), following the instructions set out in section S.27.01 of Chapter 10;  
and
  - (r) template SR.05.03.01 of Chapter 9, specifying information on revenue account (life), following the instructions set out in section S.05.03 of Chapter 10.
2. Where a *partial internal model* is used, the templates referred to in points (j) to (q) shall only be reported in relation to the risks covered by the *standard formula*.
3. Where a full *internal model* is used, the templates referred to in points (j) to (q) shall not be reported.

## **ARTICLE 18A: ANNUAL TEMPLATES FOR INDIVIDUAL FIRMS – MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

*Firms with matching adjustment permission* shall submit to the PRA annually template [insert MALIR ref], setting out portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios*, in accordance with the instructions set out in section [insert MALIR ref] of Chapter 10.

...

### **III: REPORTING TEMPLATES FOR GROUPS**

...

#### **ARTICLE 25: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - BASIC INFORMATION AND CONTENT OF SUBMISSION**

1. Firms and, where applicable, UK holding companies shall submit information to the PRA annually using the following templates (as applicable):
  - (a) template S.01.01.04 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 11;
  - (b) template S.01.02.04 of Chapter 9, specifying basic information on the group and the content of the reporting in general, following the instructions set out in section S.01.02 of Chapter 11;
  - (c) where, for the calculation of group solvency, the group uses method 1, either exclusively or in combination with method 2, template S.01.03.04 of Chapter 9, specifying basic information on the ring-fenced funds and matching adjustment portfolios, following the instructions set out in section S.01.03 of Chapter 11.

...

#### **ARTICLE 34: ANNUAL QUANTITATIVE TEMPLATES FOR GROUPS - RING-FENCED FUNDS AND REMAINING PART INFORMATION**

1. In this Article 34, a “supported ring-fenced fund” is a ring-fenced fund whose notional SCR is not entirely covered by assets allocated to that fund.
2. Firms and, where applicable, UK holding companies which for the calculation of group solvency use method 1, either exclusively or in combination with method 2, shall submit to the PRA annually information in relation to ring-fenced funds and the remaining part (including any embedded matching adjustment portfolios), taking into account only those risks in scope of the method 1 calculation and using the following templates:
  - (a) template SR.01.01.04 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 11;
  - (b) template SR.02.01.01 of Chapter 9, to be submitted separately for each of the following (as applicable):
    - (i) the balance sheet information for all ring-fenced funds in the group (other than supported ring-fenced funds) to which the same internal model applies, with a separate template to be submitted for each different internal model used;
    - (ii) the balance sheet information for all remaining parts to which the same internal model applies, with a separate template to be submitted for each different internal model used;
    - (iii) the balance sheet information for all ring-fenced funds in the group (other than supported ring-fenced funds) to which the standard formula applies, taking into account only those assets and liabilities (if any) that are not incorporated into the balance sheet information referred to in paragraph 2(b)(i), with a separate template to be submitted for each part of the standard formula calculation if the notional SCR for such part of the group is not calculated on the basis of consolidated data; and
    - (iv) the balance sheet information for the remaining part to which the standard formula applies, taking into account only those assets and liabilities (if any) that are not

incorporated into the balance sheet information referred to in paragraph 2(b)(ii), with a separate template to be submitted for each part of the *standard formula* calculation if the notional *SCR* for such part of the *group* is not calculated on the basis of consolidated data,

using both the valuation in accordance with [Valuation 2.1-2.2 and Chapter II of Title I of Commission Delegated Regulation (Solvency II) 2015/35] and the valuation following the consolidated financial statements, and following the instructions set out in section S.02.01 of Chapter 11;

(c) template SR.25.04.01 of Chapter 9, to be submitted separately for each of the following (as applicable):

(i) the notional *SCR* calculation covering all ring-fenced funds in the *group* (other than supported ring-fenced funds) to which the same *internal model* applies, with a separate template to be submitted for each different *internal model* used;

(ii) the notional *SCR* calculation covering all remaining parts to which the same *internal model* applies, with a separate template to be submitted for each different *internal model* used;

(iii) the notional *SCR* calculation covering all ring-fenced funds in the *group* (other than supported ring-fenced funds) to which the *standard formula* applies, taking into account only those risks (if any) that are not incorporated into a notional *SCR* calculation referred to in paragraph 2(c)(i), with a separate template to be submitted for each part of the *standard formula* calculation if the notional *SCR* for each part of the *group* is not calculated on the basis of consolidated data; and

(iv) the notional *SCR* calculation covering the remaining part to which the *standard formula* applies, taking into account only those risks (if any) that are not incorporated into a notional *SCR* calculation referred to in paragraph 2(c)(ii), with a separate template to be submitted for each part of the *standard formula* calculation if the notional *SCR* for such part of the *group* is not calculated on the basis of consolidated data,

following the instructions set out in section S.25.04 of Chapter 11.

...

#### **IV. REPORTING TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS**

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#### **ARTICLE 39: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS- BASIC INFORMATION AND CONTENT OF SUBMISSION**

1. *Third country branch undertakings* must submit information to the *PRA* annually using the following templates (as applicable) in respect of the operations of each *third country branch* (other than a *third country pure reinsurance branch*):

(a) template S.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 10;

(b) template S.01.02.07 of Chapter 9, specifying basic information on the *third country branch* and the content of the reporting in general, following the instructions set out in section S.01.02 of Chapter 10; and

- (c) template S.01.03.01 of Chapter 9, specifying basic information on the ring-fenced funds and matching adjustment portfolios, following the instructions set out in section S.01.03 of Chapter 10.

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**ARTICLE 43: ANNUAL QUANTITATIVE TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS- RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION**

1. Third country branch undertakings must submit information in relation to each ring-fenced fund, each matching adjustment portfolio and the remaining part to the PRA annually using the following templates (as applicable) in respect of the operations of each third country branch (other than a third country pure reinsurance branch):
- (a) template SR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 10;
- (b) template SR.02.01.07 of Chapter 9, specifying balance sheet information using the valuation in accordance with [Valuation 2.1-2.2 and Chapter II of Title I of the Commission Delegated Regulation (Solvency II) 2015/35] and the valuation according to the branch management accounts value for the branch operations, following the instructions set out in section S.02.01 of Chapter 10;
- (c) template SR.12.01.01 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life and health SLT), following the instructions set out in section S.12.01 of Chapter 10; and
- (d) template SR.17.01.01 of Chapter 9, specifying information on provisions referred to in Third Country Branches 6.1 (non-life) for each line of business, following the instructions set out in section S.17.01 of Chapter 10.

**ARTICLE 43A: ANNUAL TEMPLATES FOR THIRD COUNTRY BRANCH UNDERTAKINGS - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

Third country branch undertakings with matching adjustment permission shall submit to the PRA annually template [insert MALIR reference], setting out, in respect of the operations of each third country branch (other than a third country pure reinsurance branch), portfolio metrics and detailed information on the assets and liabilities held in their matching adjustment portfolios in accordance with the instructions set out in section [insert MALIR ref] of Chapter 10.

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**ARTICLE 48: ANNUAL QUANTITATIVE TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES- RING-FENCED FUNDS, MATCHING ADJUSTMENT PORTFOLIOS AND REMAINING PART INFORMATION**

- (1) Third country branch undertakings must submit information in relation to each ring-fenced fund, each matching adjustment portfolio and the remaining part to the PRA annually using the following templates (as applicable) in respect of the operations of each third country pure reinsurance branch:
- (a) template SR.01.01.07 of Chapter 9, specifying the content of the submission, following the instructions set out in section S.01.01 of Chapter 10;

- (b) template SR.12.01.01 of Chapter 9, specifying information on the provisions referred to in Third Country Branches 6.1 (life and health SLT), following the instructions set out in section S.12.01 of Chapter 10; and
- (c) template SR.17.01.01 of Chapter 9, specifying information on non-life provisions referred to in Third Country Branches 6.1 for each *line of business*, following the instructions set out in section S.17.01 of Chapter 10,

## **ARTICLE 48A: ANNUAL TEMPLATES IN RESPECT OF THIRD COUNTRY PURE REINSURANCE BRANCHES - MATCHING ADJUSTMENT ASSET AND LIABILITY INFORMATION**

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Third country branch undertakings with matching adjustment permission shall submit to the PRA annually template [insert MALIR ref], setting out, in respect of the operations of each *third country pure reinsurance branch*, portfolio metrics and detailed information on the assets and liabilities held in their *matching adjustment portfolios* in accordance with the instructions set out in section [insert MALIR ref] of Chapter 10.

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### **3 PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT**

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3.4 For the purposes of 3.3(4), where a *firm* applies:

- (1) a *matching adjustment* in accordance with ~~Technical Provisions 6~~ the Matching Adjustment Part, the firm must include in the description:
  - (a) a description of the *matching adjustment* and of the portfolio of obligations and assigned assets to which the *matching adjustment* is applied; ~~and~~
  - (b) a quantification of the impact of a change to zero of the *matching adjustment* on the *firm's* financial position; and
  - (c) a statement on the *firm's* attestation in accordance with Chapter 11 of the Matching Adjustment Part.

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### **9 REPORTING TEMPLATES**

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9.13. Template S.01.03.01, specifying basic information on ring-fenced funds and *matching adjustment portfolios* can be found here.

9.14. Template S.01.03.04, specifying basic information on ring-fenced funds and *matching adjustment portfolios*, can be found here.

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9.64. Template SR.22.02.01, specifying information on the projection of future *cash-flows* for the *best estimate* calculation by each *matching adjustment portfolio*, can be found here.

9.65. Template SR.22.03.01, specifying information on the *matching adjustment portfolios* by each *matching adjustment portfolio*, can be found here.

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9.81. Template SR.25.05.01 specifying information on the notional SCR (ring-fenced funds, *matching adjustment portfolios*, remaining part) where the *firm* uses a full *internal model* or a *partial internal model* can be found here.

...

9.123 Template [insert MALIR reference], setting out portfolio metrics and detailed information on the assets and liabilities held in *matching adjustment portfolios*, can be found here.

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**10 REPORTING TEMPLATES DATA ITEM INSTRUCTIONS (INDIVIDUAL FIRMS AND THIRD COUNTRY BRANCH UNDERTAKINGS)**

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10.67 Section [include MALIR reference] instructions can be found here.

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