Bank of England

Prudential Regulation Authority

Supplementary information for applications to apply matching adjustment

Firm name	
Firm reference number	
Date of application	
Address	

The information below should be submitted by firms to allow the PRA to consider an application to apply the matching adjustment. Firms should submit this information with the Solvency II approval application form to S2submissions@bankofengland.co.uk.

If a firm is making an application in respect of multiple portfolios then a completed copy of this checklist should be submitted separately for each portfolio covered by the application. The evidence required by Articles 2 to 5 of the matching adjustment Implementing Technical Standard (MA ITS)[1] should be set out separately for each portfolio.

If the application covers multiple portfolios, please provide a summary of the various portfolios below and ensure that within the completed application, it is very clear which evidence relates to which portfolio.

1. Portfolio/application details
e.g. There are [x] portfolios covered by this application: Portfolio 1 (brief description) Portfolio 2 (brief description) … Portfolio [x] (brief description) This supplementary information is in respect of Portfolio [y].

[1] Implementing technical standards on the approval of an application for matching adjustment

In order for the PRA to assess an application for matching adjustment efficiently, this document covers each item of evidence required by the MA ITS. In each of the boxes below, firms are asked to explain where the relevant item of evidence can be found within the application, with links or references to supporting documents as appropriate.

This will assist the PRA in assessing the completeness of the application, as well as aiding the review process.

Failure to provide all of the evidence required by the MA ITS will result in the application being deemed incomplete.

All Articles referred to below are articles of the MA ITS, unless otherwise stated.

2.	Article 1(3): evidence of the internal decision-making process relating to the application.

Content of the application relating to the assigned portfolio of assets

3.	Article 2(a): evidence that the assigned portfolio of assets meets all of the relevant conditions specified in Article 77(b)(1) of the Solvency II Directive.
4.	Article 2(b): details of the assets within the assigned portfolio, which shall consist of line-by-line asset information together with the procedure used to group such assets by asset class, credit quality and duration for the purposes of determining the fundamental spread referred to in paragraph 1(b) of Article 77(c) of the Solvency II Directive.
NB: The asset information should be contained in a suitable electronic form such as Microsoft Excel.	
5.	Article 2(c): a description of the process used to maintain the assigned portfolio of assets in accordance with Article 77(b)(1)(a) of the Solvency II Directive, including the process for maintaining the replication of expected cash-flows where these have materially changed.

Content of the application relating to the portfolio of insurance or reinsurance obligations

6.	Article 3(a): evidence that the insurance or reinsurance obligations meet all of the criteria specified in Article 77(b)(1)(d), (e), (g) and (j) of the Solvency II Directive i. Article 77(b)(1)(d) of the Solvency II Directive: The insurance or reinsurance contracts underlying the portfolio of insurance or reinsurance obligations do not give rise to future premium payments.
	ii. Article 77(b)(1)(e) of the Solvency II Directive: The only underwriting risks connected to the portfolio of insurance and reinsurance obligations are longevity risk, expense

		risk, revision risk and mortality risk.
	iii.	Article 77(b)(1)(g) of the Solvency II Directive: The contracts underlying the insurance or reinsurance obligations include no options for the policy holder or only a surrender option where the surrender value does not exceed the value of the assets, valued in accordance with Article 75 of the Solvency II Directive, covering the insurance or reinsurance obligations at the time the surrender option is exercised.
	iv.	Article 77(b)(1)(j) of the Solvency II Directive: The insurance or reinsurance obligations of an insurance or reinsurance contract are not split into different parts when composing the portfolio of insurance or reinsurance obligations (to which the matching adjustment will be applied).
7.		Article 3(b): where mortality risk is present, quantitative evidence that the best estimate of the portfolio of insurance or reinsurance obligations does not increase by more than 5% under the mortality risk stress specified in Article 52 of the Delegated Act.

Content of the application relating to cash-flow matching and portfolio management

8.	Article 4(a): quantitative evidence that the criteria of Article 77(b)(1)(c) of the Solvency II Directive are met, including a quantitative and qualitative assessment of whether any mismatch gives rise to risks which are material in relation to the risks inherent in the insurance business to which the matching adjustment is intended to be applied.
9.	Article 4(b): evidence that adequate processes will be in place to properly identify, organise and manage the portfolio of obligations and assigned portfolio of assets separately from other activities of the undertaking, and to ensure that the assigned assets will not be used to cover losses arising from other activities of the undertaking, in accordance with Article 77b(1)(b) of the Solvency II Directive.
10.	Article 4(c): evidence of how the own funds will be adjusted in accordance with Article 81 of the Delegated Act to reflect any reduced transferability.
11.	Article 4(d): evidence of how the solvency capital requirement (SCR) will be adjusted to appropriately reflect any reduced scope for risk diversification. Where relevant this shall

include evidence of compliance with Articles 216, 217 and 234 of the Delegated Act. Where insurance and reinsurance undertakings intend to calculate the SCR using an internal model but have not been granted the necessary supervisory approval, the evidence required by this paragraph shall be submitted on the basis of the standard formula result as well as the unapproved internal model.

Additional content of the application

12. Article 5(a): confirmation that the conditions of Article 77(b)(3) of the Solvency II Directive will be met if supervisory approval to apply a matching adjustment is granted.
13. Article 5(b): the liquidity plan required under Article 44(2) of the Solvency II Directive.
14. Article 5(c): the assessments required under Article 44(2a)(b) of the Solvency II Directive.
15. Article 5 (d): the assessments required under Article 45(2a) of the Solvency II Directive.
16. Article 5(e): a detailed explanation and demonstration of the calculation process used to determine the matching adjustment in accordance with the requirements of Article 77(c) of the Solvency II Directive.
17. Article 5(f): a list of the other applications submitted by the insurance or reinsurance undertaking, or currently foreseen within the next six months, for approval of any of the items of the phasing-in listed in Article 308(a)(1) of the Solvency II Directive, together with the corresponding application dates.

18.	Article 1(3): Any other relevant information that the firm considers may be necessary for the assessment and decision by the PRA.
19.	For firms using internal ratings, please provide suitable documentation including details of the ratings methodologies; the calibration and back testing of the ratings; the governance around the ratings process and the processes in place for the review of internally assigned ratings.

Other relevant information

While the following information is not mandatory for a matching adjustment application, the PRA strongly encourages firms to include this documentation in their submissions.

20.	Please provide cash flow and statistical information for each MA portfolio in the form of three specified 'tests'. See related guidance for more information on completing these tests. Test 1: Discounted Accumulated Cash-flow Shortfall Test Test 2: 99.5th Percentile Value at Risk (VaR) Test Test 3: Notional Swap Test
21.	Please provide a split of those corporate bond assets that contain make-whole clauses for prepayment risk, grouped by credit rating and level of make-whole spreads over gilts. The PRA would also welcome firms providing a copy of this table for any other asset classes that feature prepayment risk and make-whole (or other contractual) compensation clauses.

Market value (£m)	Full spens	<=25bps	<=50bps	<=75bps	<=100bps	>100bps
AAA						
AA						
A						
BBB						

March 2015