EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, together with rules to be made by the Prudential Regulation Authority ("PRA"), restate some provisions of Articles 53 and 54 of Commission Delegated Regulation (EU) 2015/35 of 10th 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) ("Regulation 2015/35") and some provisions of regulations 4B and 42 of the Solvency 2 Regulations 2015 (S.I. 2015/575), in some cases with modifications. Those provisions of Regulation 2015/35 and the Solvency 2 Regulations 2015 are revoked by section 1(1) of, and Schedule 1 to, the Financial Services and Markets Act 2023 (c. 29) and the revocations are due to come into force on 30th June 2024. The draft PRA rules are available at www.bankofengland.co.uk/prudential-regulation/publication/2023/september/review-of-solvency-ii-reform-of-the-matching-adjustment and from the PRA at the address given below, and are also due to come into force on 30th June 2024.

For the purposes of these Regulations, "insurance undertaking" and "reinsurance undertaking" are defined so as to capture only those undertakings to which the Insurance Rules for UK Solvency II firms' sector of the PRA Rulebook applies.

Regulation 3 requires the PRA to publish technical information for the purpose of calculating an insurance or reinsurance undertaking's technical provisions and the solvency capital requirement on the basis of the standard formula. Requirements for undertakings to maintain technical provisions and as to the application of (and basis for) the solvency capital requirement are set out in PRA rules. Technical provisions are the reserves an undertaking must hold against their expected future claims due to policyholders and beneficiaries, including a buffer against the risk of the failure of the undertaking. The solvency capital requirement is the level of capital an undertaking must maintain to absorb losses in an extreme event, and which gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due. Either it is calculated according to the standard formula (prescribed in legislation and PRA rules) or according to an internal model (subject to approval from the regulator).

Regulation 4 requires the PRA to grant an insurance or reinsurance undertaking approval to apply a matching adjustment where the undertaking complies with the specified conditions. Regulations 5 and 6 provide how the matching adjustment and fundamental spread are to be calculated. Further provision about the calculation of the matching adjustment is to be set out in PRA rules. Permission to apply a "matching adjustment" allows an undertaking which holds long-term assets which match the cash flows of long-term insurance liabilities to recognise as capital part of as yet unearned future cash flows. The "fundamental spread" represents the risks retained by an undertaking with permission to apply a matching adjustment, and is excluded from the calculation of the matching adjustment.

Regulation 7 makes provision about PRA rules related to regulations 3 to 6. Regulation 8 ensures the PRA has available powers under the Financial Services and Markets Act 2000 (c. 8) to secure compliance with regulations 5 and 6. Regulation 9 provides that these Regulations must be reviewed by the Treasury within 5 years of their coming into force.

The rules made by the PRA are available on www.prarulebook.co.uk and copies of the rules can be obtained from the PRA, 20 Moorgate, London EC2R 6DA, where they are also available for inspection.

A full impact assessment of the effect that this instrument will have on the costs of business, the voluntary sector and community bodies is available from HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ and is published with the Explanatory Memorandum alongside this instrument at www.legislation.gov.uk.