STATUTORY INSTRUMENTS

2023 No. 1347

The Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023

Application of the matching adjustment

4.—(1) This regulation applies where an insurance or reinsurance undertaking ("the undertaking") applies to the PRA to disapply or modify its rules, such that the applicant undertaking may apply a matching adjustment to the relevant risk-free interest rate term structure in order to calculate the best estimate of a portfolio of long-term insurance or reinsurance obligations.

(2) Where this regulation applies, the PRA must grant the application where each of the conditions set out in paragraphs (3) to (9) and (11) is met.

(3) The undertaking must assign a portfolio of assets, consisting of bonds or other assets with similar cash flow characteristics, to cover the best estimate of the portfolio of insurance or reinsurance obligations.

(4) The credit quality of the assets in the portfolio referred to in paragraph (3) must be capable of being assessed through a credit rating or the undertaking's internal credit assessment of a comparable standard.

(5) The undertaking must maintain the assignment referred to in paragraph (3) over the lifetime of the obligations, except for the purpose of maintaining the replication of expected cash flows between assets and liabilities where the cash flows have materially changed.

(6) The portfolio of long-term insurance or reinsurance obligations to which the matching adjustment is applied and the assigned portfolio of assets must be—

(a) identified, and

(b) organised and managed separately from the other activities of the undertaking.

(7) Subject to paragraph (8), the expected cash flows of the assigned portfolio of assets must replicate each of the expected cash flows of the portfolio of insurance or reinsurance obligations in the same currency.

(8) Any mismatch between the expected cash flows referred to in paragraph (7) must not give rise to risks which are material in relation to the risks inherent in the insurance or reinsurance business to which the matching adjustment is applied.

(9) The cash flows of the assigned portfolio of assets must be fixed and not capable of being changed by the issuers of the assets or any third parties, except—

(a) where—

(i) the risks to the quality of matching are not material, and

(ii) only such limited proportion of the portfolio as the PRA may determine is affected;

(b) where the cash flows of the assigned portfolio of assets are linked to inflation, and the assets replicate the cash flows of the portfolio of insurance or reinsurance obligations that are linked to inflation; or

(c) in a case where issuers of the assets or third parties have the right to change the cash flows of an asset, where sufficient compensation is paid to secure an equivalent cash flow by reinvesting the compensation in an asset of equivalent or better quality.

(10) In paragraph (9)(a), whether a risk is material is to be determined in accordance with any PRA rules referred to in regulation 7(b).

(11) The undertaking's application must comply with the requirements of, or imposed under, section 138BA of FSMA 2000(**1**) (disapplication or modification of rules in individual cases) and the undertaking must comply with rules referred to in regulation 7(a).

(12) This regulation does not prevent the PRA from exercising its powers under section 138BA of FSMA 2000 where an undertaking to whom the PRA has granted a permission to disapply or modify PRA rules in accordance with paragraph (2) has failed to meet any of the conditions—

(a) set out in paragraphs (3) to (9) and (11),

(b) set out in rules referred to in regulation 7(b), or

(c) imposed under section 138BA(4)(a) of FSMA 2000.

(**1**) Section 138BA was inserted by section 34 of the Financial Services and Markets Act 2023 (c. 29).