
STATUTORY INSTRUMENTS

2023 No. 1347

**The Insurance and Reinsurance Undertakings
(Prudential Requirements) Regulations 2023**

Calculation of the matching adjustment

5.—(1) For each currency the matching adjustment referred to in regulation 4(1) must be equal to the difference of—

- (a) the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the portfolio of insurance or reinsurance obligations, results in a value that is equal to the value of the portfolio of assigned assets; and
- (b) the annual effective rate, calculated as the single discount rate that, where applied to the cash flows of the portfolio of insurance or reinsurance obligations, results in a value that is equal to the value of the best estimate of the 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.

(2) For the purpose of the calculation referred to in paragraph (1)—

- (a) “assigned assets” only includes assets whose expected cash flows are required to replicate the cash flows of the portfolio of insurance and reinsurance obligations, excluding any assets in excess of that;
- (b) valuations must comply with any requirements set out in PRA rules.

(3) In paragraph (2), 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 regulation 6(3)(a) 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 (as provided in regulation 6(4) and (5)).

(4) The matching adjustment must not include the fundamental spread (as calculated in accordance with regulation 6) reflecting the risks retained by the insurance or reinsurance undertaking.

(5) The deduction of the fundamental spread under paragraph (4) from the result of the calculation set out in paragraph (1) must include only the portion of the fundamental spread (as calculated in accordance with regulation 6) that has not already been reflected in the adjustment to the cash flows of the assigned portfolio of assets in accordance with paragraphs (1) to (3).