

# Bank of England PRA

## Solvency II

### Supplementary information for application to apply matching adjustment

Firm name Click or tap here to enter text.

Firm reference number Click or tap here to enter text.

Date of application Click or tap to enter a date.

The information below should be submitted by firms to allow the Prudential Regulation Authority (PRA) to consider an application to apply the matching adjustment (MA). Firms should submit this information with the section 138BA permission application form and other documentary evidence to [pra-waivers@bankofengland.co.uk](mailto:pra-waivers@bankofengland.co.uk), [MASubmissions@bankofengland.co.uk](mailto:MASubmissions@bankofengland.co.uk) and the firm's usual supervisory contact.

When preparing an application to apply the MA firms should refer to the MA eligibility conditions contained in the Insurance and Reinsurance Undertakings (Prudential Requirements) Regulations 2023 (the IRPR regulations) and the Matching Adjustment Part of the PRA Rulebook.<sup>1 2</sup>

Firms should refer to expectations set out in supervisory statement (SS) 7/18 – Solvency II: Matching adjustment.<sup>3</sup> Firms should also refer to the statement of policy (SoP) 8/24 – Solvency II: Matching Adjustment Permissions and Matching Adjustment Investment Accelerator Permissions, and additional relevant materials listed in paragraph 1.4 of the SoP.<sup>4</sup>

Firms with permission to use the matching adjustment investment accelerator (MAIA) are reminded that applications to vary the MAIA permission should be submitted at the same time as applications to vary the scope of the MA permission. Relevant firms

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<sup>1</sup> [www.legislation.gov.uk/ukxi/2023/1347/contents/made](https://www.legislation.gov.uk/ukxi/2023/1347/contents/made).

<sup>2</sup> [www.prarulebook.co.uk](https://www.prarulebook.co.uk).

<sup>3</sup> [www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-2-matching-adjustment-ss](https://www.bankofengland.co.uk/prudential-regulation/publication/2018/solvency-2-matching-adjustment-ss).

<sup>4</sup> [www.bankofengland.co.uk/prudential-regulation/publication/2024/june/solvency-ii-matching-adjustment-permissions-statement-of-policy](https://www.bankofengland.co.uk/prudential-regulation/publication/2024/june/solvency-ii-matching-adjustment-permissions-statement-of-policy).

should refer to the PRA website, and the SoP referred to above, for further guidance on the submission of MAIA applications.<sup>5</sup>

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<sup>5</sup> [www.bankofengland.co.uk/prudential-regulation/authorisations/solvency-ii-approvals](https://www.bankofengland.co.uk/prudential-regulation/authorisations/solvency-ii-approvals).

## Section 1 - Application overview

Firms should provide details of the application below:

1.1	Application type	Choose an item.
1.2	Application signed off by	Click or tap here to enter text.
1.3	Application safeguard(s)  Where a safeguard is proposed, please complete Section 3	Choose an item.

1.4	For change in scope applications only  Indicate area(s) impacted by change(s)	<input type="checkbox"/> Asset eligibility ( <i>please complete Section 4</i> ) <ul style="list-style-type: none"> <li><input type="checkbox"/> Assets with highly predictable (HP) cash flows (<i>please complete Section 4A</i>)</li> <li><input type="checkbox"/> Securitised assets (<i>please complete Section 4B</i>)</li> </ul> <input type="checkbox"/> Liability eligibility ( <i>please complete Section 5</i> ) <input type="checkbox"/> Matching ( <i>please complete Section 6</i> ) <input type="checkbox"/> Management of the MA portfolio ( <i>please complete Section 7</i> )
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1.5	Summary of application
<p>Where a firm has participated in the PRA's Application Readiness Assessment Process (ARAP), please provide a summary of the following two items (and then proceed to Section 2):</p> <ol style="list-style-type: none"> <li>1. Any changes to the scope of the application since the ARAP</li> <li>2. How the firm has addressed any PRA feedback given during the ARAP</li> </ol> <p>Where a firm has not participated in the ARAP, please provide the following. This information should allow the PRA to swiftly understand the proposed content and scope of the application and does not need to repeat large sections of the documentary evidence:</p> <p>For an initial MA application, please provide a high-level summary of the proposed application, including but not limited to:</p> <ul style="list-style-type: none"> <li>• a high-level description of the assets and liabilities included in the MA application, including the asset types, asset and liability features, whether the application includes any securitised asset(s), and/or any asset(s) with HP cash flows;</li> </ul>	

- where an internal securitisation is included, details of the underlying assets and the firm's assessment of their suitability to back the liabilities in the MA portfolio; the structure and associated governance arrangements; how the reliability and efficacy of the asset restructuring are demonstrated; the reasons for the restructure; and how the firm is satisfied that the level of MA benefit is appropriate;
- where an asset with HP cash flows is included, confirmation of whether the firm proposes to use (a) the standard Fundamental Spread (FS) additions methodology without modification, (b) the standard FS additions methodology with a modification, or otherwise (c) a high-level summary of the more sophisticated FS additions methodology;<sup>6</sup>
- where a safeguard is proposed, details of the safeguard and which asset(s) in the MA application it applies to, including any limits/restrictions. Please also set out the rationale for the safeguard and the intended effect; and
- a description of the high-level approach to management of the portfolio, approach to assessing matching and approach to calculation of the MA. This should include any tests or metrics used to maintain suitable asset-liability matching.

For an application to vary an existing MA permission, please provide a high-level description of the proposed change(s) in scope, including but not limited to:

- where new assets and/or liabilities are included, a high-level description of the assets and/or liabilities included in the MA application, including the asset types, asset and liability features, whether the assets are currently in the MA portfolio using a MAIA permission, whether the application includes any securitised asset(s), and/or any asset(s) with HP cash flows;
- where an internal securitisation is included, details of the underlying assets and the firm's assessment of their suitability to back the liabilities in the MA portfolio; the structure and associated governance arrangements; how the reliability and efficacy of the asset restructuring are demonstrated; the reasons for the restructure; and how the firm is satisfied that the level of MA benefit is appropriate;
- where an asset with HP cash flows is included, confirmation of whether the firm proposes to use (i) the standard FS additions methodology without modification, (ii) the standard FS additions methodology with a modification, or otherwise (iii) a high-level summary of the more sophisticated FS additions methodology;
- where a safeguard is proposed, details of the safeguard and which asset(s) in the MA portfolio it applies to, including any limits/restrictions. Please also set out the rationale for the safeguard and the intended effect;
- any material changes to the management of the portfolio, approach to assessing matching, or approach to calculation of the MA; and
- any other change that the firm considers may give rise to the need for a variation of the existing MA permission.

<sup>6</sup> See Matching Adjustment 8.2.

Please provide information on any other relevant applications.

	Type of Application	Relevant to Application
1.6	<p>Has the firm submitted any other MA applications that the PRA is yet to provide a decision on?</p> <p>If yes, please list the application(s) and the date(s) when they were submitted.</p>	Choose an item.
1.7	<p>Has the firm submitted, or does the firm currently anticipate submitting, to the PRA any other applications that may be relevant to the regulatory balance sheet or capital requirements of the firm or group?</p> <p>If yes, please provide a list of these applications with (expected) submission dates.</p>	Choose an item.

## Section 2 - Application confirmations

For each of these relevant confirmations, firms should include the confirmation within its documentary evidence and signpost below where these are included.

For all MA applications, firms should provide confirmations 2.1 to 2.3:

	Application confirmations	Confirmation	Application document reference
2.1	Application contains written confirmation that it contains all information that the firm considers necessary for the PRA to reach a decision.	Choose an item.	
2.2	Application contains written confirmation that the MA portfolio complies with the MA eligibility conditions, including: <ul style="list-style-type: none"> <li>a. Regulation 4(4) of the IRPR regulations;</li> <li>b. Matching Adjustment 2.2(6)</li> </ul>	Choose an item.	
2.3	Where applicable, application contains written confirmation that the firm has satisfied itself that any implications for its with profits business (including points around fairness, investment strategy and wider management) have been considered, and if necessary, discussed with the FCA, in accordance with paragraph 2.10 of the SoP.	Choose an item.	

For all MA applications to vary an existing permission, firms should provide the following:

	Application confirmations	Confirmation	Application document reference
2.4	Application contains written confirmation that all changes to the application have been displayed as 'track changes' and that no other changes have been made.	Choose an item.	

## Section 3 – Safeguards

In this section, firms should indicate where the relevant evidence can be found within the submitted documentation, or indicate that it is not relevant to the application.

	Application evidence	Application document reference	Relevant to Application
3.1	Describe any safeguard(s) proposed and explain the rationale for, and effect of, the safeguard(s).		Choose an item.
3.2	Where the application includes removal of, or amendment to, an existing safeguard, explain the rationale and supporting evidence.		Choose an item.

### Guidance for completing sections 4-7

In each of the sections below, firms should indicate where the relevant evidence can be found within the submitted documentation or indicate that it is not relevant to the application. The application document reference should be as clear and specific as possible. Where a firm is submitting an application to vary an MA permission, the firm is only required to complete the sections impacted by the proposed changes (as indicated by the firm in Section 1.4 above).

Where firms do not include evidence relating to the points listed, firms are asked to explain in Section 8 how they are satisfied they are able to demonstrate compliance with the relevant eligibility condition(s).

## Section 4 - Asset eligibility

The following section should be completed in relation to all assets included in the application.

	Application evidence	Application document reference	Relevant to Application
<b>Regulation 4(3) of the IRPR Regulations</b>			
4.1	Demonstrate that the assets in the application are bonds or other assets with similar cash flow characteristics.		Choose an item.
4.2	Provide the <u>MALIR Asset Type</u> classification(s) that would apply to the assets within scope of the application (as per <u>MALIR 2—2.2C0020 of the Matching Adjustment reporting template MA.01 – Portfolio assets</u> ).		Choose an item.
4.3	Where full investment is not made at the point of purchase, explain how this is reflected in the MA benefit recognised, liquidity planning and the assessment of the quality of matching.		Choose an item.
4.4	Where cash flows depend on underwriting risks other than those permitted in the MA eligibility conditions, or realisable asset values, explain how this is consistent with the MA eligibility conditions.		Choose an item.
<b>Additional information</b>			
4.5	Confirmation of credible plans to invest in new asset types or assets with new features within 12 months of the PRA reaching a decision on the application.  Or otherwise, justification of why it is appropriate to include these assets in the application.		Choose an item.



The following section should be completed only for assets with cash flows that are fixed (or considered fixed through the use of a particular treatment or assumption).

	Application evidence	Application document reference	Relevant to application
<b>Regulation 4(9) of the IRPR Regulations; and Regulation 4(9)(b) of the IRPR Regulations</b>			
4.6	<p>Explain how the asset cash flows are fixed, including consideration of issuer or third-party optionality.</p> <p>Where fixity is achieved through the use of a particular treatment or assumption, set out details of how fixity has been achieved. This may include details of any associated hedging arrangements or restriction on the cash flows recognised in the MAP, and how these arrangements perform under different conditions, including stress.</p> <p>Where assets have prepayment risk this should be considered under 4(9)(c) below.</p>		Choose an item.
<b>Regulation 4(9)(c) of the IRPR Regulations</b>			
4.7	Where there is prepayment risk, explain how it has been determined that sufficient compensation will be paid on prepayment.		Choose an item.
4.8	If insufficient compensation will be paid, but the asset cash flows are considered fixed through the use of a particular treatment or assumption, explain how the assessment has been made.		Choose an item.

Section 4A – Assets with HP cash flows – To be completed only where the application includes assets with HP cash flows.

	Application evidence	Application document reference	Relevant to Application
<b>Regulation 4(9)(a) of the IRPR Regulations</b>			
4A.1	Explain how assets with cash flows that are not fixed have cash flows that are highly predictable. This should include demonstrating how asset cash flows are ‘contractually bounded’ in timing and amount, and how the failure to meet these terms is considered to be a default event.		Choose an item.
4A.2	Provide an assessment of the sources of uncertainty in cash flow timing and/or amount.		Choose an item.
4A.3	Explain the approach being used to calculate the FS additions in respect of assets with HP cash flows.		Choose an item.
4A.4	If using a more sophisticated FS additions methodology, explain how the best estimate cash flows have been determined to be consistent with Matching Adjustment 5.4.		Choose an item.
4A.5	Explain the processes in place to ensure that the MA portfolio is managed in accordance with Matching Adjustment 5.2(1) and, where relevant, Matching Adjustment 5.2(2).		Choose an item.

Section 4B – Securitised Assets – To be completed only where the application includes asset securitisation.

Please note that the information requested below is summarised at a high level and that the PRA’s more detailed expectations are covered in the “Asset restructuring” section of SS7/18 (paragraphs 2.52 to 2.61A inclusive). Please include document

references that cover how those expectations are met, where appropriate to each row of the table.

	Application evidence	Application document reference	Relevant to Application
4B.1	Explain how the underlying assets are suitable to back the liabilities in the MA portfolio.  Where the underlying assets are MA-eligible, explain why the restructuring and any value created are appropriate.		Choose an item.
4B.2	Demonstrate how the restructure is appropriately recognised within the firm and the group and that the restructuring arrangements are legally contractually executed.		Choose an item.
4B.3	Demonstrate how the governance arrangements are appropriately robust and transparent, including ensuring that the transaction does not give rise to conflicts of interest.		Choose an item.
4B.4	Demonstrate that the Prudent Person Principle (PPP) and requirements for risk management would be met for risks arising under the asset restructuring. <sup>7</sup>		Choose an item.
4B.5	Demonstrate how the restructure can be relied upon, to provide sufficient assurance that the promised MA-eligible cash flows will be delivered under differing conditions.		Choose an item.
4B.6	Demonstrate how the process for adding any new loans to the restructure is appropriate.		Choose an item.

<sup>7</sup> See Chapters 2 and 3 of the Investments Part of the PRA Rulebook

## Section 5 – Liability eligibility

	Application evidence	Application document reference	Relevant to Application
<b>Matching Adjustment 2.2(2)</b>			
5.1	Provide confirmation and evidence that the only underwriting risks in the MA portfolio are limited to those permitted.		Choose an item.
<b>Matching Adjustment 2.2(3)</b>			
<b>Matching Adjustment 2.4</b>			
5.2	Provide confirmation that the mortality risk limit exposure is monitored regularly including details of the monitoring undertaken and its frequency.		Choose an item.
<b>Matching Adjustment 2.2(4)</b>			
5.3	Describe the process for identifying optionality in liability contracts, including contracts that cover single beneficiaries as well as contracts that cover multiple beneficiaries		Choose an item.
5.4	If liabilities have optionality, provide information on which liabilities this applies to, the options they have and how they meet the requirements of Matching Adjustment 2.2(4).		Choose an item.
5.5	Demonstrate that any surrender values do not exceed the value of assets backing the liabilities at the time the surrender option is exercised and meets expectations set out in paragraph 3.13 of SS7/18.		Choose an item.
5.6	Evidence that historical surrender experience has not resulted in losses and whether any individual contracts could give rise to a material loss either in base or stressed conditions		Choose an item.
5.7	An assessment of the impact on liquidity and cash flow matching in the event of an increase in surrenders		Choose an item.
<b>Matching Adjustment 2.2(1)</b>			
5.8	Demonstrate how the inclusion of the guaranteed portion of with-profit annuities, in-payment income protection liabilities and/or dependant annuities, satisfies the relevant MA eligibility conditions.		Choose an item.

	Application evidence	Application document reference	Relevant to Application
5.9	Provide details concerning any deferred premiums and how these deferrals meet Matching Adjustment 2.2(1) in respect of no future premium payments.		Choose an item.
<b>Matching Adjustment 2.3</b>			
5.10	Provide confirmation that there are no liabilities split between the MAP and non-MAP except for those exceptions provided for in the PRA rules		Choose an item.
5.11	Provide details of how any eligible liabilities are split between the MAP and the non-MAP		Choose an item.

## Section 6 – Matching

	Application evidence	Application document reference	Relevant to application
<b>Regulation 4(7) of the IRPR Regulations</b>			
6.1	Explain the regular process(es) in place to ensure that the asset cash flows replicate the liability cash flows in the same currency. This should consider both at the balance sheet date and future time periods and market conditions.		Choose an item.
<b>Regulation 4(8) of the IRPR Regulations</b>			
6.2	Explain the regular process(es) in place to ensure that any mismatch between the expected asset and liability cash flows does not give rise to risks that are material in relation to the business to which the MA is applied. This should consider both at the balance sheet date and future time periods and market conditions.		Choose an item.
<b>Regulation 4(9) of the IRPR Regulations</b>			
<b>Regulation 4(10) of the IRPR Regulations</b>			
6.3	Explain how the additional risks to the quality of matching from holding assets permitted under regulation 4(9) of the IRPR regulations have been identified, how these have been assessed, and their impact. This should consider both at the balance sheet date and at future time periods and market conditions.		Choose an item.

## Section 7 – Management of the MA portfolio

	Application evidence	Application document reference	Relevant to application
<b>Regulation 4(5) of the IRPR Regulations</b>			
7.1	Explain how the investment policy and mandate(s) reflect a 'hold to maturity' strategy, consistent with regulation 4(5) of the IRPR regulations.		Choose an item.
7.2	Explain the approach to asset trading and rebalancing within the MA portfolio, and how it is consistent with good risk management.		Choose an item.
7.3	Explain the approach to extraction of surplus from the MA portfolio and the processes supporting it.		Choose an item.
<b>Regulation 4(6) of the IRPR Regulations</b>			
<b>Matching Adjustment 2.2(5)</b>			
7.5	Explain how the processes in place relating to accounting systems, investment policy and mandates, processes and controls, governance, and management information for the MA portfolio are consistent with regulation 4(6) of the IRPR regulations and Matching Adjustment 2.2(5).		Choose an item.
7.6	Explain how the collateral management approach associated with the MA portfolio is consistent with regulation 4(6) of the IRPR regulations.		Choose an item.
<b>Regulation 4(3) of the IRPR Regulations</b>			
7.7	Explain the regular process(es) in place to ensure that the portfolio of assets covers the best estimate of the obligations		Choose an item.
<b>Additional information</b>			
7.8	Explain the approach to screening new assets and liabilities to ensure ongoing MA compliance.		Choose an item.

## Section 8 – Additional information

Firms may be able to demonstrate compliance with the MA eligibility conditions by including alternative evidence or additional evidence not covered within sections 4 to 7

above. Where this is the case, firms should signpost to relevant evidence in the application that explains how they are satisfied that they are able to demonstrate compliance with the relevant MA eligibility condition(s). Under ‘Relevant condition topic’ firms should refer to one of section 4 to 7 above.

Additional evidence provided	Relevant condition topic	Application document reference

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