



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Guidance on Applications for Approval of the Matching Adjustment – 2018

1. Overview

1.1 “Solvency II Information Note 1 – Applications for approval of certain items specified in Article 308a of the Solvency II Directive”, “Solvency II Information Note 3 – Applications for approval of certain items specified in Article 308a of the Solvency II Directive” and “Solvency II Information Note 4 – Applications for approval of certain items specified in Article 308a of the Solvency II Directive – Undertaking Specific Parameters” have been replaced by the following:

- Guidance on Applications for Approval of Ancillary Own Funds;
- Guidance on Applications for Approval of Basic Own Funds & Capital Contributions;
- Guidance on Applications for Approval of the Matching Adjustment;
- Guidance on Applications for Approval of the Volatility Adjustment;
- Guidance on Applications for Approval of Transitional Risk Free Interest Rates;
- Guidance on Applications for Approval of Transitional Technical Provisions;
- Guidance on Applications for Approval of Undertaking Specific Parameters.

1.2 Regulation 86 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) permits (re)insurance undertakings to apply a matching adjustment, subject to prior approval by the Central Bank of Ireland (hereafter ‘Central Bank’).

2. Approvals Process for Applications

- 2.1 This document provides guidance in relation to the Central Bank's requirements for applying to use matching adjustment items outlined in Regulation 86. In order to ensure an efficient application process and avoid unnecessary delays in the review of those applications it is vital that undertakings submit applications which include all relevant information necessary for the assessment and decision by the Central Bank. The complete application should be submitted in electronic format to your usual supervisory contact.

3. Matching Adjustment

- 3.1 Regulation 86 requires that (re)insurance undertakings obtain prior approval from the Central Bank in order to apply a matching adjustment.
- 3.2 Applications for the approval of the matching adjustment should include all items required in Commission Implementing Regulation (EU) 2015/500 of 24 March 2015 (the “Commission Implementing Regulation”) on the approval of the application of a Matching Adjustment¹.
- 3.3 A checklist based on the relevant Articles of the Commission Implementing Regulation is provided in Appendix 1 to assist in making an application. Failure to provide all of the necessary evidence will result in the application being deemed incomplete.

¹<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0500&from=EN>

Appendix 1 - Matching Adjustment Application Checklist

- Complete all sections of this checklist.
- Insert the relevant section or page number from your application in the column marked 'Applicant';

	Applicant
Article 1 - Application to use a matching adjustment	
1. Insurance and reinsurance undertakings applying to use a matching adjustment shall submit a written application for prior approval by the Central Bank.	
2. The application shall be submitted in English (or Irish if desired) only, and shall contain at least the information required by Articles 2 to 5 of the Commission Implementing Regulation.	
3. Insurance and reinsurance undertakings shall ensure that the application includes any other relevant information that they consider may be necessary for the assessment and decision by the Central Bank.	
4. Where an application is submitted in respect of more than one portfolio of insurance or reinsurance obligations, the application shall set out the evidence required by Articles 2 to 5 of the Commission Implementing Regulation separately for each portfolio that is covered by the application.	
5. The application shall be approved by the Board of the insurance or reinsurance undertaking and documentary evidence of this approval shall be submitted with the application.	

Article 2 - Content of the application relating to the assigned portfolio of assets	
1. In relation to the assigned portfolio of assets required by Regulation 86(1)(a), the application shall include at least the following:	
a. evidence that the assigned portfolio of assets meets all of the relevant conditions specified in Regulation 86(1) to (3);	

<p>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 Regulation 87;</p>	
<p>c. a description of the process used to maintain the assigned portfolio of assets in accordance with Regulation 86(1)(a), including the process for maintaining the replication of expected cash-flows where these have materially changed.</p>	

<p>Article 3 - Content of the application relating to the portfolio of insurance or reinsurance obligations</p>	
<p>1. In relation to the portfolio of insurance or reinsurance obligations to which the matching adjustment is intended to apply, the application shall contain at least the following:</p>	
<p>a. evidence that the insurance or reinsurance obligations meet all of the criteria specified in Regulation 86(1) (d), (e), (g) and (j);</p>	
<p>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 Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (the "Delegated Regulation").</p>	

<p>Article 4 - Content of the written application relating to cash-flow matching and portfolio management</p>	
<p>1. In relation to the cash-flow matching and management of the eligible portfolio of obligations and the assigned portfolio of assets, the application shall contain at least the following:</p>	
<p>a. quantitative evidence that the criteria of Regulation 86(1)(c) 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</p>	

intended to be applied;	
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 Regulation 86(1)(b);	
c. evidence of how the own funds will be adjusted in accordance with Article 81 of the Delegated Regulation to reflect any reduced transferability;	
d. evidence of how the Solvency Capital Requirement 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 Regulation. Where insurance and reinsurance undertakings intend to calculate the Solvency Capital Requirement 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.	

Article 5 - Additional content of the written application	
1. In addition to the information specified in Articles 2 to 5 of the Commission Implementing Regulation, the application shall also include:	
a. confirmation that the conditions of Regulation 86(7) will be met if supervisory approval to apply a matching adjustment is granted;	
b. the liquidity plan required under Regulation 46(6);	
c. the assessments required under Regulation 46(7)(a) and (b);	
d. the assessments required under Regulation 47(5);	
e. a detailed explanation and demonstration of the calculation process used to determine the matching adjustment in accordance with the requirements of Regulation 87;	

<p>f. a list of the other applications submitted by the insurance or reinsurance undertaking, or currently foreseen within the next six months, together with the corresponding application dates.</p>	
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