




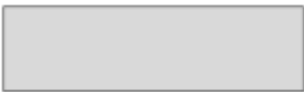

Pillar 2 pension risk – guidance for completion of the FSA081 template

This document provides guidance for completion of the PRA’s FSA081 template, which firms must submit as part of their Pillar 2 reporting. The guidance follows the structure of the FSA081 template and is therefore split into four sections:

- General information
- Section I – information on the scheme
- Section II – Pillar 2 calculations
- Section III – interest rate and inflation sensitivities

The above sections are discussed in this guidance document.

Not all firms will be required to submit every piece of information in the FSA081 template. The information required will be in proportion to the nature, scale, and complexity of the firm’s activities. To enable this, the FSA081 input cells are colour-coded. This is detailed below, and each firm should follow the colour coding as follows:

Cell colour	Input required?
White/no colour 	Yes, to be provided by all firms.
Light grey 	The information is requested from significant firms and deposit-takers, and designated investment firms whose size, interconnectedness, complexity, and business type give them the capacity to cause disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying out their business in an unsafe manner. The PRA may ask other firms to submit the data on a case-by-case basis.
Dark grey 	No.

Units

Generally, amounts should be reported in absolute values, rounded to the nearest whole number in reporting currency, unless otherwise stated. For any entries that are percentages, these should be entered with 1 decimal place. For example, ‘70.0%’.

Additional documents to be attached to the submission

All firms should provide a latest triennial valuation report and annual funding update for United Kingdom schemes. The triennial valuation reports are provided by the scheme actuary to the trustees of the pension plan every three years. If the latest triennial valuation report was provided in a previous submission, we only require the annual funding update. Firms should submit these documents via electronic means to the PRA.



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Comments boxes

Any additional information not fitting into the comments boxes should be sent to the PRA via electronic means.

Effective 1 December 2021



General information

Firms should complete the following mandatory fields:

Row reference	Row label(s)	Guidance
3	Basis of reporting	UK consolidated, solo consolidation, UK consolidation group, prudential sub-consolidation, or capital sub-group.
4	Submission number	The submission number – firms should enter ‘1’ and increase this number by ‘1’ if a resubmission is required.
5	Firm reference number (FRN)	The unique ‘firm reference number’.
6	Name of the firm	The name of the firm.
7-8	Reporting period start date Reporting period end date	These dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for the purposes of the ICAAP assessment.
9	Reporting currency	Firms should report in the currency of their ICAAP ie Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CHF), Japanese Yen (JPY) or Swedish Krona (SEK).



Section I – information on the scheme

Assets must be reported at market value at the effective date, which should coincide with the reporting period end date; liabilities must be reported at accounting value (except where otherwise stated) at the effective date. Other points of guidance are set out in the tables below.

Column reference	Column label(s)	Guidance
010	Total	Firms should report information at the entire firm level, without breaking it down into the individual defined benefit schemes.
020-090	Scheme 1, Scheme 2 etc	Separate information is requested for the largest defined benefit schemes for which firms have material responsibility. One column per such scheme.
100	Other schemes and post retirement employee benefits	All non-material defined benefit pension arrangements. Information should be aggregated into this one column.
110	Details, comments, and notes	Firms may enter additional information in support of the data provided. For example, we expect firms to provide: <ul style="list-style-type: none"> • a split of market values by major currency denomination if applicable; and • the proportion of the market value that is currency hedged, again split by major currency denomination. <p>If the designated box is insufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.</p>

Row reference	Row label(s)	Guidance
010	Name of scheme	For firms also participating in the Bank's stress test via the annual cyclical scenario, please ensure there is consistency between the scheme names used in the FSA081 and the relevant stress testing templates.
020-050	Various	-
060-130	Fixed interest sovereign bonds Index linked sovereign bonds Fixed interest corporate bonds AAA Fixed interest corporate bonds AA Fixed interest corporate bonds A Fixed interest corporate bonds BBB Index linked corporate bonds (all credit ratings) Other credit	For any holdings denominated in non-GBP currencies, additional information should be provided in the comments box (column 110) and/or the separate box in Section III of this template (labelled no. 15). The additional information should include: <ul style="list-style-type: none"> • the split of the total market value by each major currency denomination ie split between Sterling, Dollar, Euro, and other; and • the proportion of the market value that is currency hedged, again split by major currency denomination.



		If the information does not fit in these spaces, firms should submit this to the PRA via electronic means or provide links.
130	Other credit	Include corporate bonds below investment grade and, in the comments box, provide a separate breakdown by category, eg sub-investment grade/unrated/other material categories that merit differentiation. If the comments box is insufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.
140-210	Various	-
215	Insured annuities	Please ensure the relevant liability is included in the overall scheme liabilities.
230	Asset PV01 (1bp increase)	Ordinarily, this figure is negative.
240	Asset IE01 (1bp increase)	Ordinarily, this figure is positive.
250-270	Various	-
280	Liability PV01 (1bp increase)	Ordinarily, this figure is negative.
290	Liability IE01 (1bp increase)	Ordinarily, this figure is positive.
300	Deficit/(surplus) of pension scheme – on an accounting basis	The deficit/(surplus) of the pension schemes must be calculated by valuing the assets at market value and the liabilities at accounting value.
310	Section 75 valuation (i.e. value of liabilities)	The buyout value of the liabilities of each scheme. For United Kingdom schemes, this must be calculated in accordance with Section 75 of the Pensions Act 1995. For non-United Kingdom schemes, firms should assess what their obligations would be to the pension schemes in the event of resolution (ie the cost of settling the liabilities).
320-340	Active members Deferred pensioners Pensioners	These entries should reflect the Macaulay duration for each of these member categories, based on the accounting liabilities in entries 250-270. Please enter to 1 decimal place.
350-430	Fixed interest sovereign bonds Index linked sovereign bonds Fixed interest corporate bonds (all credit ratings) Fixed interest corporate bonds AAA Fixed interest corporate bonds AA Fixed interest corporate bonds A Fixed interest corporate bonds BBB Index linked corporate bonds (all credit ratings) Other credit	These entries should reflect the Macaulay duration for each of these asset categories. Please enter to 1 decimal place.
440-500	Various	-
501-502	Life expectancy...	If a member is expected to live to age 90, please enter '25' (90 minus 65) rather than '90'.



11	Explanation of principles underlying choice of pension accounting assumptions for each defined benefit plan in the group, and whether this has received auditor acceptance.	Outline the principles underlying the choice of pension accounting assumptions for each defined benefit plan and whether the principles and the choice in the most recent year have received auditor acceptance. For example, firms should explain the principles that they use to select the particular discount rate, inflation and pension increase assumptions, and mortality table assumptions that they have used to produce the figures, and draw attention to any changes in these principles since the previous FSA081 submission.
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Section II – Pillar 2 calculations

The key points of guidance for this section are set out in the tables below.

Column reference	Column label(s)	Guidance
010	Firms' assessment	These figures should be calculated using the firm's own methodology.
020	Stress scenario 1	These figures should be calculated using the accounting basis and the scenario described as 'Scenario 1' in 'The PRA's methodologies for setting Pillar 2 capital'.
030	Stress scenario 2	These figures should be calculated using the accounting basis and the scenario described as 'Scenario 2' in 'The PRA's methodologies for setting Pillar 2 capital'.
12	Details, comments and notes	An explanation of why each action would be effective in a stress and how it fulfils the PRA's eligibility criteria for accepting management actions and offsets.

Row reference	Row label(s)	Guidance
520	Deficit/(surplus) of the pension scheme, before stress, on firm's own basis (column 010) and accounting basis (columns 020 and 030)	Please enter the pension scheme's deficit (positive) or surplus (negative) at the 'Reporting period end date', before any stresses have been applied. If the accounting basis has been used for the firm's own assessment in column 010, then ordinarily these three entries will be the same.
530	Increase/(decrease) in deficit from 1-year stress	The change in surplus/deficit due to the stress applied. For example: Before stress: accounting surplus of 20 After stress: accounting deficit of 80 In this example, we would therefore enter a positive figure of 100.
540-590	Management action/offset 1 Management action/offset 2 Management action/offset 3 Management action/offset 4 Management action/offset 5 Management action/offset 6	A quantification for each management action and offset a firm wishes to claim when Pillar 2A capital for pension risk is calculated. A reduction to the capital requirement should be entered as a negative figure here. Please describe each action/offset in the comments box to the right of the entry.
600	Pillar 1 pensions capital	If non-zero, please enter as a negative figure. Typically, this would be the accounting deficit for the scheme at the 'Reporting period end date'.
605	Total pillar 2 pensions risk capital	This should equal the sum of items 520 to 600, with a minimum of zero.



Section III – interest rate and inflation sensitivities

The key points of guidance for this section are set out in the tables below.

Row reference	Data item name	Guidance
610-690	Change to discount rate / inflation rate	The discount rate and inflation sensitivities should be applied independently. For the inflation sensitivity figures, please include all liabilities that are affected by inflation e.g. RPI and CPI pension increases, deferred revaluation and salary increases. In addition, any caps and floors to the pension increases should be allowed for.
13	Additional information for derivatives – see guidance	A breakdown of all derivatives by type, including: <ul style="list-style-type: none">• the total market value, which should be consistent with the information provided in Section I;• the total notional value; and• the sensitivity of the market value to the underlying, e.g. for swaps please provide the sensitivity to parallel shifts in swap rates, for credit default swaps please provide the sensitivity to parallel shifts in the credit curve, etc.
14	Additional information for SPVs – see guidance	<p>In relation to any special purpose vehicle ('SPV') or similar arrangements proposed to be used as an offset to Pillar 2 pension risk capital, firms are required to provide to the PRA:</p> <ul style="list-style-type: none">• the document or agreement governing that vehicle;• summaries of the above, the purpose of the vehicle, and how it operates;• explanation of the effectiveness of the vehicle as a mitigant to risk in a going concern scenario;• a breakdown of the investments of the vehicle at the effective date at individual asset level;• explanations of how the assets held by the vehicle change over time;• if the SPV is held on the firm's balance sheet, a breakdown at the effective date of the risk-weightings of the assets and an explanation of those risk weightings;• breakdown at the effective date of assets to which prudential filters have been applied, together with an explanation of these prudential filters;• explanation of the valuation methodology used for these assets; and• explanation of how the SPV contributes to the capital resources of the group and solo entities. <p>Quantitative information should be provided in separate lines at the bottom of this data item, with any commentary added in the designated box. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.</p>
15	Firms' further notes/qualitative information on data reported	Any other information, as required.



16	Provision of relevant funding documentation	Please confirm the relevant documentation has been provided by entering "X" in the box. If the latest triennial valuation report was provided in a previous submission, we only require the annual funding update.
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