

This document forms part of the Prudential Regulation Authority Consultation Paper 45/15, December 2015 available at

<http://www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp4515.aspx>

In this document, new text is underlined and deleted text is struck through.

FSA081 Pillar 2 pension risk

A firm in scope must submit the data items required by this data item proportionately to the nature, scale and complexity of its activities. A graduated approach is described by the colour codes below:

White/no colour: This information is to be provided by all firms

Yellow: This information is to be provided by significant firms. The PRA may ask other firms to submit the data on a case-by-case basis.

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.

General information

Firm should complete the following mandatory fields:

- the basis of their reporting – UK consolidated, solo consolidation, UK consolidation group or capital sub-group;
- the submission number – firms should enter ‘1’ and increase this number by ‘1’ in case of resubmission;
- the unique ‘firm reference number’ (FRN);
- the name of the firm;
- the reporting period start and end dates – these dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for purposes of the ICAAP assessment; and
- the reporting currency – firms should report in the currency of their ICAAP i.e. Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CHF), Japanese Yen (JPY) or Swedish Krona (SEK).

Units

All amounts should be reported in absolute values rounded to the nearest whole number in reporting currency.

Where values correspond to percentages, these should be entered as decimal numbers up to 2 decimal places. For example, ‘70.00%’.

Section 1 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. Firms don't need to report the risk-free rate for their assets or liabilities.

Scheme 1, Scheme 2 etc.

Separate information is requested for the largest defined benefits schemes for which firms have material responsibility.

Total

In this column firms should report information at the entire firm level, without breaking it down into the individual defined benefit schemes.

Other schemes and post retirement employee benefits

All non-material defined benefits pensions. Information should be aggregated.

Details, comments and notes

Firms may enter ~~or provide links to~~, additional information in support of the data provided in the columns to the left of it. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.

Market value of asset components - other credit

Include below investment grade corporates broken down by category, eg sub investment grade, unrated, and other material categories that merit differentiation.

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.

Section 75 valuation (ie value of liabilities)

The buyout value of the liabilities of each scheme. For United Kingdom schemes, this has to be calculated in accordance to Section 75 of the Pensions Act 1995. For non-United Kingdom schemes, firms need to make an assessment of what their obligations would be to the pension schemes in the event of resolution (ie the cost of settling the liabilities).

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.

Fixed interest portfolio

Firms should also provide the split by market value, denominated in the overall currency used for FSA081, of the major currency denominations of the fixed interest portfolio, eg sterling, dollar, Euro, or other. This information should be provided in the additional separate lines at the bottom of this data item, with any commentary 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.

Section 2 Pillar 2 calculations

The deficit (surplus) of the pension fund under stress scenarios, as specified in Table D of the statement of policy on Pillar 2 is to be reported.

Firms' assessment

The deficit (surplus) should be calculated using the firm's own methodology.

Stress scenario

The deficit (surplus) should be calculated using the accounting basis.

Incremental deficit from one-year stress

The stressed deficit minus the starting deficit.

Management actions

A description and separate quantification for each management action and offset a firm wishes to claim when Pillar 2A capital for pension risk is calculated.

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.

Section 3

The information in this section has to be reported by 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.

Interest rate and inflation sensitivities

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.

Derivatives

A breakdown of all derivatives by type, including:

- 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, eg for swaps please provide the sensitivity to parallel shifts in swap rates, for credit default swaps (CDS) please provide the sensitivity to parallel shifts in the credit curve, etc.

SPV

In relation to any 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:

- 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.

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.

Additional documents to be attached to the submission

All firms should provide a latest funding update and triennial valuation report for United Kingdom schemes. These are the reports provided by the scheme actuary to the trustees of the pension plan. Firms should submit these documents via electronic means to the PRA.

Comments

Comment boxes are limited to 255 characters. Any additional information should be sent to the PRA via electronic means.