BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Review of Solvency II: Quantitative Impact Study (QIS): Q&A

27 August 2021 Update: Coloured text details new content with this update.

This Q&A covers queries to assist firms with the completion of the QIS, for example to provide clarification on the information required. It does not cover questions relating to reform proposals or the broader Solvency II (SII) review.

Please raise your queries to your usual supervisory contact or InsuranceData@bankofengland.co.uk. Where appropriate and relevant to all firms we will update this Q&A with a response.

General questions

1. Why is the PRA doing the QIS?

On Thursday 1 July 2021, the Government published its response to its 'Call for Evidence' for the SII review. As part of that response it asked the PRA 'to model different options to better understand which combination of reforms would best meet the Government's objectives and what the aggregate impact would be'. The QIS exercise will gather the data that we need to carry out this modelling, which will inform an overall set of SII reforms.

2. What is the timeframe of the QIS?

The QIS was published on Tuesday 20 July. Participants should submit responses by Wednesday 20 October. The timescales of the QIS have been set to fit within the overall review of SII.

We encourage participants to engage with the QIS early and provide any feedback or queries within the first few weeks of this publication.

If you wish to participate in the QIS but find that the timescales may be challenging, please contact your usual supervisory contact (and copy in InsuranceData@bankofengland.co.uk).

3. What firms fall within scope of the QIS?

The QIS is relevant to UK solo insurance firms (both life and non-life) and the Society of Lloyd's.

UK groups are out of scope of the QIS, unless you have been specifically contacted by the PRA to provide a response.

We will be contacting the Society of Lloyd's to discuss the process for receiving an aggregate submission that will cover all managing agents. Therefore, managing agents are not expected to respond individually to the QIS, unless otherwise requested.

The instructions set out which parts of the QIS are relevant to all firms, and which are relevant to only certain firms (eg firms with matching adjustment (MA) approval).

We have written to a number of firms through the Bank of England Electronic Data Submission (BEEDS) portal, inviting them to participate in the exercise to ensure that we have an appropriate breadth and level of coverage in the industry for our study. If you receive this invitation, we would ask that you prioritise resource to complete the exercise to the standard needed to inform policy making.

We welcome responses from all other UK regulated firms should they wish to participate.

4. What businesses should composite firms provide data for?

Composite firms should provide information for all lines of business, split as appropriate according to the QIS templates and instructions.

5. What level of validation and governance will be required before submitting a response?

It is important for the PRA to receive high-quality data from the QIS, so we ask that firms take an appropriate level of validation before it is submitted. Specifically, we ask that firms:

(a) ensure that the QIS data submitted is consistent with the QRTs where appropriate
(b) with an MA approval ensure the QIS is consistent with the 16 June MA asset and liability information request (where they have been asked to complete this)
(c) undertake reasonableness checks on the direction and magnitude of the balance sheet movements of each of the Run IDs described in the instructions
(d) obtain sign-off of the QIS submission by an appropriate individual approved under the Senior Insurance Managers Regime (SIMR)

6. What if my QIS submission does not reconcile with the YE2020 QRTs?

It is our central expectation that information provided in the QIS will be fully consistent with the SII information provided in the QRTs and associated SII reporting as at year-end 2020, unless the scenarios being tested lead this information to change. Where this is not the case then we would expect firms to explain why.

7. Are the QIS templates publicly available?

The QIS template(s), instructions and supplementary documents have been published on the Bank of England's website.

8. Can work on the QIS be outsourced to consultants etc.?

Yes, providing the level of validation and governance as set out in Question 5 is met.

9. How do I submit a response?

Firms will be asked to submit their data via BEEDS, using the Excel template provided.

10. Can I request an extension to the 20 October deadline?

A long extension is not possible given the timescales of the overall SII review. There may however be flexibility to give a small extension of the deadline, to agree which parts of the QIS should be prioritised, or to agree simplifications in some areas (see response to Question 11 below). Please contact your supervisor (copying InsuranceData@bankofengland.co.uk) if you would like to discuss this further.

Data quality and potential simplifications

11. Due to resource constraints, my firm is struggling to complete the QIS. Can I take a streamlined approach and prioritise runs?

Ideally the PRA would like to receive data for all of the runs. The runs have been selected to test different risk margin and fundamental spread (FS) designs in different market conditions and they therefore all provide important insights for the SII reform work. However, we recognise the QIS is a material exercise and would be happy to discuss potential prioritisation of runs and simplifications that could be used, including streamlining of responses. If you would like to have such a discussion with us then please contact your supervisor at the earliest opportunity (copying InsuranceData@bankofengland.co.uk).

Where simplifications or approximations have been agreed bilaterally with the PRA, or where other items in this Q&A indicate that they may be appropriate, we expect firms to consider the impact of these on the overall quality of their QIS submission, in particular when agreeing sign-off as set out in question 13 below.

12. How should a firm proceed when there is a conflict regarding achievability vs data quality?

The QIS responses are intended to be used by the PRA to inform its work on the SII review. It is therefore important that data is provided for the runs requested and that the data is of high quality. However, if firms are struggling to complete the exercise to an appropriate level of quality in the time available, then we would be keen to understand the issues firms are encountering and are open to discussing ways in which these could potentially be addressed. This could include consideration of how to reflect caveats or limitations in the different runs. As per our response to Question 11, we may also be able to agree simplifications that could increase achievability but without materially impacting the usability of the results. If a firm would like to explore this further with the PRA then

they should reach out to their usual supervisory contact in the first instance (copying InsuranceData@bankofengland.co.uk).

13. Does the PRA expect the QIS to be subject to the same level of validation as the QRTs?

No. The priority for the PRA is to receive high quality submissions from firms. Specifically, paragraph 6 of the QIS instructions asks firms to:

(a) ensure that the QIS data submitted is consistent with the QRTs where appropriate (and for firms with an MA approval, ensure the QIS is consistent with the 16 June MA asset and liability information request);
(b) undertake reasonableness checks on the direction and magnitude of the balance sheet movements of each of the Run IDs; and
(c) obtain sign-off of the QIS submission by an appropriate individual approved under the Senior Insurance Managers Regime (SIMR).

For avoidance of doubt, although the PRA has asked for year-end 2020 QIS data (where appropriate) to be consistent with the QRTs submitted as at this date, we do not expect firms to follow the same validation process for the QIS as they would do for the QRTs themselves. We would encourage firms to make reasonable judgements as to the level of validation necessary that would meet with the above points.

14. Could the PRA share its validation checks with industry, so that firms can ensure these are passed before responses and data are sent to the PRA?

The PRA's high-level expectations around validation are set out in paragraph 6 of the QIS instructions, and these will be the first things that the PRA would check when receiving firms' submissions. In addition, firms are encouraged to give free form comments to assist with the PRA's analysis and interpretation of the QIS submission, as set out in paragraph 13 of the QIS instructions.

15. Can an internal model firm use a proxy model to produce the requested information? And can a standard formula firm make use of roll forward tools where appropriate?

Use of proxy models and roll forward tools are acceptable. Please state in the free form "comments" worksheet of the QIS template where such tools have been used, including any limitations of the QIS results that might arise from them.

Technical questions

Solvency capital ratio (SCR) information in the QIS

16. My firm is in the middle of an internal model approval process, which internal model should be used to calculate the SCR in this case?

We expect firms to use their approved internal model as at year-end 2020. This is to give consistency with other information submitted to the PRA as at that date (including the QRTs). However, if any firm considers that model changes currently in train could lead to a model that responds quite differently compared to the approved internal model then they should reach out to their supervisory contact (copying InsuranceData@bankofengland.co.uk) to discuss whether a different approach would be needed.

17. For Run ID 9 regarding scenario A, there is a footnote asking for the SCRs to be recalculated. Is this deliberate, as this was not needed in some of the other runs? Furthermore, can the run 9 SCR be done under the existing SII framework?

Yes, in Run ID 9, the SCR has to be recalculated. This is because there is no downwards rates stress in the baseline scenario. For the other sensitivities in scenarios A and B we are able to make use of the SCR submitted for the equivalent run in the Baseline scenario.

The Run ID 9 SCR should be calculated under the existing SII MA framework, adjusting only for the economic conditions specified in this sensitivity run.

18. Why has the PRA not asked for the SCR to be recalculated in most of the runs for scenarios A and B? We are concerned that this gives an incomplete picture of the run impacts.

The PRA has not asked for the SCR to be recalculated in the majority of these runs; this is a simplification for the purposes of the QIS exercise given the timescales available. We agree the SCR could potentially change as a result of changes to the FS design and calibration.

However, we recognise that for internal model firms, it takes time to work through how the model could change and the impact of such changes. We also know there will likely be impacts for other areas of the model and not just credit risk. To ask for updated SCR results (based on an updated internal model reflecting different SCR designs) therefore seemed overly burdensome in the timescale of the QIS exercise.

We are however keen to explore how the SCR could move in respect of the FS designs we are testing in the QIS. At this stage we are asking for firms' thoughts on how their SCR could change in respect of these FS designs. This is set out in paragraph 17 (bullet 2) of the QIS instructions, where we invite firms to provide free-form comments and note that firms are welcome to give both qualitative and quantitative responses. We would prefer these responses to be free-form than in a template format, as we consider this gives firms opportunity to explain the drivers of potential change in more detail.

19. We interpret the request for overall entity balance sheets in the scenarios as a requirement for firms with MA and/or the Volatility Adjustment (VA) to stress their entire balance sheet not just the components using these measures. Are firms allowed to have other non-MA / VA business modelled on a reasonable / best endeavours basis?

Yes, we would expect the MA and / or VA to be applied consistent with the scope of those approvals for the entity. That said, simplified modelling of the credit stresses for non-MA business could be acceptable – please state any such simplifications clearly in the comments tab.

20. **Are firms allowed to apply simplified credit stresses, such as flat spread widening stresses across different CQS, or stresses that are averaged across financial and non-financial assets?**

    For MA portfolios, the granularity of the spread widening stresses is at the same level as the average CRP component, as well as the CRP floors and caps. Applying simplified spread widening stresses that are averaged across different sectors or CQS whilst maintaining sector / CQS-specific CRP assumptions may distort the results, and make them less comparable to other firms. Firms should therefore apply sector specific stresses, and simplifications should only be used if the firm is satisfied that there will be no material distortion to the results – please state clearly the approach taken in the comments tab.

    For non-MA portfolios, simplifications are more likely to be acceptable – please state any such simplifications clearly in the comments tab.

Risk margin

21. **Will the data collected from the QIS allow the PRA to model risk margin alternatives other than those specified in the QIS instructions? For example, will the PRA be able to model variations to the 6% cost-of-capital rate, the lambda parameter, and different percentiles of the Margin Over Current Estimate (MOCE) approach?**

    Yes. With the firm-specific data that the QIS will provide, the PRA will be able to model a wide range of options. For example, to investigate variations of the formulaic 'risk tapering' (lambda) approach, we are collecting firm-specific data on the run-off pattern of a firm's projected future SCRs under different economic conditions. With this data, the PRA can then model the impact of changes to other, non-firm-specific inputs to the formula, such as the cost-of-capital rate, and the inclusion of different lambda parameters (with and without floors), without needing to ask firms to perform each of these calculations themselves.

    For the MOCE approach, the PRA is asking firms to calculate an SCR for non-hedgeable risks, again under a range of different economic conditions. The MOCE is then derived by making an approximation using a normal distribution, and reading off the relevant percentile from that distribution (as explained further in the QIS instructions). With the QIS data, the PRA will have all of the key pieces of information needed to model risk margins using a MOCE approach at any percentile, without having to ask firms to do this directly.

22. In some of the runs for the QIS, the PRA asks firms to calculate the risk margin using a MOCE approach, with the same percentiles that are used by the IAIS for the MOCE under the Insurance Capital Standard (ICS). However, for some firms, the calibration of the Solvency II internal model is very different from the ICS capital model. So, despite using the same percentile, a firm may produce a different MOCE number for the QIS than it would for its ICS calculation. How should firms input any observations they have about this?

Within the QIS spreadsheet, there is a 'comments' tab where firms can add commentary on their model results, as well as any other feedback they wish to submit. The risk margin section of the Qualitative Questionnaire also asks firms for their views on the benefits and drawbacks of different risk margin calculation approaches.

23. When calculating the SCR for non-hedgeable risks for the MOCE, are firms supposed to use a discount rate with MA and/or Volatility Adjustment (VA) applied, rather than the basic risk-free rate?

Firms should apply a discount rate consistent with that used to determine their best estimate liabilities, ie they should include the MA or VA where they currently have approval.

24. Where a firm has restricted diversification in the SCR between the Matching Adjustment portfolio (MAP) and the remainder of business, then, when calculating the SCR for non-hedgeable risks for the MOCE approach, would you still expect the firm to compute two different SCRs for the MAP and for the remainder of business, or one combined SCR?

A firm should compute two separate SCRs for the MAP and the remainder of the business, if this is what it would normally do to calculate its SII SCR.

25. On page 23 of the instructions it says 'Basis: the SCR for non-hedgeable risks should be calculated on the presumption that the firm will pursue its business as a going concern and must cover existing business, as well as new business expected to be written over the following 12 months.' Do all firms, including life firms using the standard formula, actually have to include expected new business in this SCR calculation?

The approach to new business when calculating SCR_0' for the MOCE approach should be consistent with the approach a firm takes to new business when calculating its SII SCR.

26. Is one year of new business intended to be included in the SCR for non-hedgeable risks under the risk-tapering (lambda) specification?

No. The SCRs for non-hedgeable risks under the risk tapering (lambda) approach should be calculated in the same way as for firms' current Solvency II risk margin calculation.

27. What assumption should firms make for implied inflation in the interest rate sensitivities?

Firms should apply the interest rate stresses to both nominal and real interest rates, which has the effect of holding implied inflation constant.

28. Is it necessary to have the SCR run-off figures both net of reinsurance (table 5.3) and gross of reinsurance (table 5.4), and split by line of business?

Regarding the gross vs net, we are most interested in collecting gross and net of reinsurance position for those firms who have made material use of reinsurance, for example in respect of annuity business. This is motivated by our understanding that the size and volatility of the risk margin has been a factor in the levels of reinsurance seen, and so it is important to capture in the QIS both the current picture as well as have another data point (i.e. gross of reinsurance position) to use to estimate alternative impacts.

Regarding the granularity by line of business, if possible, we would like the SCR run-off information to be submitted to the level of granularity set out in the QIS template, as this will inform analysis on risk margin reform. At a minimum this should cover the firm's most material lines of business. If it is not possible for firms to produce modelled splits by lines of business, we would accept approximations to the split by lines of business, rather than the data being omitted. The nature of the simplifications should be clearly explained.

Technical provisions

29. How essential is it to produce gross and reinsured splits for Technical Provisions (the bulk of these requirements are in Tables 3, 4, 5.4 and 6 within the template)? If a firm's proxy model only produces net of reinsurance outputs, can the gross of reinsurance values (including undiscounted SCRs gross of reinsurance and the gross BEL) be excluded from the submission?

As noted above, we are most interested in collecting gross and net of reinsurance position for those firms who have made material use of reinsurance, for example in respect of annuity business.

Where you have made material use of reinsurance it would be important for at least the baseline run IDs (particularly tables 4, 5.4 and 6) to be completed with gross of reinsurance values. For the remaining run IDs, it would be useful if you could provide a reasonable approximation of the gross figures to inform our analysis.

30. Tables 4, 6 & 8.1 of the QIS template ask for "technical provisions as a whole" under the various Run IDs. If a firm is unable to produce this information, would a submission that combines this together with the best estimate liabilities (BEL) be sufficient?

Yes, where a firm is unable to provide separate data on technical provisions as a whole, then it is acceptable to provide this combined with the BEL.

31. Table 4 of the QIS template asks for the duration of the BEL by line of business. Can we provide this in line with S.38 of the QRTs for Run ID 0? And are approximations of the duration acceptable?

Yes, using duration figures from S.38 of the QRTs is acceptable for Run ID 0. Furthermore, for other Run ID's, we would like liability duration information to be submitted to the level of granularity set out in the QIS template, as this will inform our analysis on the risk margin reform. At a minimum this should cover the firm's most material lines of business. If this level of detail is not available, please provide approximations of the duration by line of business, and use the 'comments' worksheet to explain.

32. Could a firm provide a breakdown of technical provisions by aggregate values for 'annuities' and 'other products' rather than providing a full breakdown by line of business/product?

In order to be able to analyse the potential impacts of the scenarios across a number of different lines of business / product types (rather than just focussing on the annuity sector), we would strongly encourage firms to provide information according to the split given in the QIS. For a life firm, it is important that the technical provisions is broken down at the minimum by annuities, with-profits, and then the remainder.

TMTP

33. Should firms consider the impact of applications that would be made for new transitionals in light of the economic conditions set out in the QIS scenarios when deriving their results?

No. The QIS should be completed on the basis of current transitional measure on technical provisions (TMTP) approvals rather than hypothetical new approvals, so that we can test how the existing TMTP responds under the various scenarios.

34. Run ID 1 asks firms for data assuming a TMTP recalculation at year-end 2020; should that recalculation assume a SONIA-based risk-free rate?

No. The TMTP recalculation in Run ID 1 should just be a restatement of Run ID 0 assuming that a TMTP recalculation had been carried out at year-end 2020, and should not include the effect of switching the GBP risk-free rate to SONIA. The purpose of this is to establish a consistent baseline regarding recalculated TMTP across all firms. The effect of the switch to SONIA is captured from Run ID 2 onwards.

35. How should firms apportion the risk margin between pre-1.1.16 and post-1.1 16 business for the TMTP calculations?

Firms should use the same approach as they usually do to apportion the risk margin for their TMTP calculations. Please use the 'comments' tab of the QIS spreadsheet to explain anything about the approach taken.

36. Should firms be recalculating their legacy Solvency 1 positions under each run for the purpose of the TMTP recalculation?

Yes, if this would make a meaningful difference to the quantum of TMTP under the relevant Run IDs. Any simplifications to the calculation of the Solvency 1 position that might affect the reliability of the TMTP amount should be explained in the 'comments' tab.

37. Do the SII SCR and the Solvency 1 capital requirement need to be recalculated for each run in order for firms to apply the Financial Resources Requirement (FRR) cap?

If there is a current impact on the TMTP amount arising from the FRR cap, or an impact from the cap would be expected under a particular QIS run, then if possible firms should calculate and include the effect of the cap in their QIS responses. Firms should then use the 'comments' tab of the QIS spreadsheet to explain the approach they have taken to the FRR cap, including any simplifying assumptions made.

38. Changes in the risk margin will mainly be offset by changes in the TMTP. Given this, can approximations be used to estimate the impact of the change in TMTP as opposed to full model runs?

Gathering information on how TMTP responds to the various scenarios (i.e. including potential changes in both the risk margin and the fundamental spreads) is an important aspect of the QIS. If full model runs are prohibitive to completing the QIS, we are open to the use of approximations.

39. Table 4 requires the TMTP to be provided based on line of business. Is this level of granularity required?

Please provide this level of granularity for Run ID 0 at a minimum. For other Run IDs, it would be preferable to have this level of granularity, but not essential. Where this information is not provided please explain in the "comments" tab how you would expect the TMTP by each line of business to change under the relevant scenarios.

40. In the footnote of the Overview worksheet, table 8.2 is noted as not being needed under stresses if firms are unable to produce this. Does the PRA require this information under the base and SONIA scenarios?

Yes, this information is needed for Run IDs 0, 1 and 2.

Deferred tax

41. What are the expectations in respect of deferred tax calculations in the scenarios?

It is important for firms to update their SII deferred tax calculations under each of the runs, especially if the impact would be material. These impacts would be difficult for the PRA to estimate without input from firms. If the impact would be material but you have concerns about what may be achievable within your QIS submission, please contact your supervisor (and copy in InsuranceData@bankofengland.co.uk) to arrange a bilateral conversation.

Matching Adjustment

42. Is the part of the Credit Risk Premium (CRP) that is linked to actual asset spreads intended to apply to the total spread on the asset, or the residual spread post allowance for Expected Loss?

The CRP is intended to apply to the total spread on the asset.

43. Is it necessary to apply the CRP to each individual asset, or can groupings/other simplifications be used?

The PRA recognises the QIS is an extensive exercise and is therefore open to simplifications being used. However, it is important that these simplifications do not materially distort the results presented as that could lead us to draw inappropriate conclusions from the information provided. Specifically in relation to grouping of assets, we consider such a simplification may be insufficiently granular for scenarios A and B unless the groups of assets have very similar spreads.
More generally, if you would like to apply a simplification but are unsure if it would be in line with the PRA's expectations, then please reach out to your usual supervisory contact (copying InsuranceData@bankofengland.co.uk).

44. Is it correct that the calibration of the Expected Loss element of the FS does not change in different economic scenarios tested?

The scenarios we are testing in the QIS assume there is no change in the calibration of the Expected Loss element of the FS design. This means that for the purposes of the QIS, a change in Expected Loss will only occur if firms choose to re-hypothecate assets to Component A or if assets are downgraded.

45. How should restructured Equity Release Mortgage (ERM) notes be treated in the credit spread widening and downgrade sensitivities?

The spread widening and downgrade sensitivities are intended to explore the behaviour of the different FS designs in different market conditions. Our expectation for the spread widening and downgrade stresses in respect of restructured ERM assets is that they would be applied to the senior restructured notes as if those assets behaved in the same way as bonds, ie that the notes should simply be stressed directly without working through the behaviour of the underlying assets which may have led to these spread stresses on the senior notes. This is in line with A3.2, paragraph 9 in the QIS instructions.

No corresponding stresses have been set out for junior notes which sit outside the MAP and have values that are typically smaller than the senior notes. For the purposes of the QIS, these junior notes are therefore treated as if they behaved in the same way as equity that is unrelated to the senior notes i.e. the value of the junior notes is unchanged under each of the sensitivities. No management actions in the form of further restructuring of the notes should be assumed as set out in the instructions document (A3.2 paragraph 9). Any impact from the movement in credit spreads and changes in ratings on the Effective Value Test results for restructured ERMs may be ignored for the purposes of this QIS.

We recognise that these spread sensitivities as specified are simplifications. For restructured ERMs, these may therefore lead to spreads on senior and junior notes 'inverting', or the notes appearing to be more sensitive to credit spread widening than they ordinarily would be. The consequential impact of the simplifications on the corresponding results will be taken into account.

We would also welcome in your QIS response any thoughts, via freeform qualitative comments, as to how in practice the FS designs set out in scenarios A and B may impact your ERM notes, including circumstances where restructuring may be needed. Please email InsuranceData@bankofengland.co.uk.

46. How should restructured Equity Release Mortgage (ERM) notes be treated in the interest rate sensitivities?

The purpose of the interest rate sensitivities is mainly to assess the impact of potential changes to the risk margin design. ERM note values (apart from the junior notes) should be updated accordingly in these sensitivities but the Portfolio MA in bps should be assumed to remain unchanged from the corresponding base scenarios, as per the instructions document (A3.1 paragraph 6). No management actions in the form of further restructuring of the notes should be assumed, in line with the approach to the credit scenarios. Any impact from the movement in interest rates on the Effective Value Test results for restructured ERMs may be ignored for the purposes of this QIS.

47. Which assets should the spread widening and downgrade stresses be applied to?

The spread widening and downgrade sensitivities should be applied to all assets held by the firm that are subject to credit risk, whether or not they are held in a matching adjustment portfolio. For avoidance of doubt, this should exclude:

- Sovereign, supranational and quasi government exposures.
- Derivative and reinsurance counterparties.

48. Where rebalancing is necessary, should firms demonstrate that all the PRA matching tests are met?

Firms should aim to ensure that they continue to meet the MA eligibility criteria in each of the runs tested. Firms should therefore ideally apply all three PRA matching tests when

determining the extent that they need to rebalance their matching adjustment portfolio(s). However, we acknowledge that this may require additional effort so, as a minimum, we ask firms to apply and meet PRA matching tests 1 and 3, and only apply test 2 if practical to do so.

49. Is it necessary for firms to test compliance with cash-flow matching in stress, particularly given the SCR will not be consistent with the matching adjustment in base scenario?

Simplified rebalancing could be acceptable in SCR calculations – please state any such simplifications clearly in the comments tab. However, we note that testing for MA compliance would still be required for the spread / downgrade scenarios in relation to the balance sheet.

50. Is it necessary to include additional and re-hypothecated assets to restore compliance in the stresses? This is onerous to set up and to structure to flow into the SCR calculations, e.g. for the base credit scenario with downgrades. Should firms be allowed to implicitly assume that any cash flow shortfall is addressed with risk free assets, with no need to identify them in the asset-by-asset listings?

The expectation for firms to hypothecate assets to restore matching compliance was aimed at obtaining a realistic impact of the test designs. However, if this proves to be challenging to model accurately, simplifications based on rebalancing using risk-free assets may be used. Please state any such simplifications clearly in the comments tab, and provide estimates of the impact if possible.

Similarly, simplified rebalancing could be acceptable in SCR calculations – again please state any such simplifications clearly in the comments tab.

51. Are firms allowed to rebalance assuming assets are purchased externally?

The QIS does not impose any restrictions on the type of rebalancing that can be assumed. However, we expect firms to apply credible rebalancing assumptions and to set out the detail of those assumptions in free-form comments as per the first bullet of paragraph 17 of the QIS Instructions. We also expect rebalancing to be appropriately reflected in the line-by-line asset information provided.

52. How should derivatives that are based on (non-rating specific) credit indices be treated in the spread widening and downgrade stresses?

Reasonable assumptions should be made with regards to the movement of the credit indices for the specified stresses (e.g. firms could take an approach based on a look-through to the mix of ratings of the index constituents and derive a weighted average stress where possible). Please include in the 'comments' tab what assumptions you have made.

53. How should a firm with MA/VA approval as an entity treat blocks of business which do not apply either the MA or VA for the various QIS scenarios?

Whilst MA and VA approvals are given at entity level, MA and VA apply only to the relevant blocks of business that are covered by the approvals that have been granted. Firms should apply the MA and VA to the QIS scenarios consistent with how it is applied under their current approval, and not a theoretical application across the entire business. Therefore, for avoidance of doubt, if a block of business does not currently benefit from either MA or VA then it should not be impacted by any changes to these elements.

54. Are firms allowed to provide the cash flows in base for each asset, with separate information on the percentage allocation to each MA component in each scenario?

Yes, providing the percentage allocation of the cash flows to each component of the MA portfolio in each scenario should be fine.

Errata

Please note that the following corrections have been made to the published QIS materials.

QIS instructions:

- Section 1 (Introduction), paragraph 19 – this should refer to Annex 3, A3.4.
- Section 9 (Instructions by worksheet – Run ID 14 to 18 (scenario B sensitivities)), paragraph 98 - we say that the MA and VA should be unchanged in bps from Run ID 7. This should instead say that the MA and VA should be unchanged in bps from Run ID 13.

Main QIS template:

- Section 8.1, all Run IDs, Cell C506 (TMTP amount before application of the FRR cap) – this should have referred to the difference between cells C499 and C504.
- Section 8.1, all Run IDs, Cells C510 and C511 – these cells have been removed. In lieu of these checks, please use the comments tab to explain how the information provided in Section 8.1 may be used to derive the value of TMTP before application of the FRR cap and how the 'Portion of the difference adjusted' (R0060) is calculated. As part of this explanation, where any adjustments are made, please clarify how the 'double run-off' effect is reflected in the calculation.
- Section 7.1, all Run IDs, Rows 470 – 481 – cells that need to be populated have now been unlocked.

Please raise technical queries to your usual supervisory contact or InsuranceData@bankofengland.co.uk. Where appropriate and relevant to all firms, we will update this section of the Q&A with a response.