

The capital charge, asset by asset

Chapters 3 to 7. The calculation sees four things: asset class, credit quality, duration and legal form. Work out the charge from the tables before the meeting, not after it.

Fund		Manager	
Insurer / prospect		Date	

Asset or fund	After look-through: sub-module	Credit quality step / equity type	Duration (years)	Charge	Market value	Capital required

Before you fill a line	Answer
Is the fund looked through? If not: type 2, 49.00 per cent, whatever it holds	
Property or equity held with fund-level debt: charge on GROSS value, not on the equity	
Currency: 25.00 per cent on every non-euro exposure, unless hedged (then a margin obligation)	
Symmetric adjustment of the month (type 1, type 2): added to the base charge	
Concentration: the largest issuer, after look-through, together with what the insurer holds directly	

The book's four, at €150.0 million each: listed equity 39.00% (€58.5 million), private equity 49.00% (€73.5 million), direct real estate 25.00% (€37.5 million), private credit BB at 4.2 years 18.90% (€28.4 million). A low charge is what the regulation says, not a safety rating.

The tables, on one page

Appendix A. Spread risk from Article 176: $a + b \times (\text{duration} - \text{lower bound of the band})$, capped at 100 per cent. Equity, property and currency are flat.

Fund		Manager	
Insurer / prospect		Date	

Quality / duration	1	3	5	7	10	15	20	25
AAA	0.90%	2.70%	4.50%	5.50%	7.00%	9.50%	12.00%	14.50%
AA	1.10%	3.30%	5.50%	6.70%	8.50%	10.90%	13.40%	15.90%
A	1.40%	4.20%	7.00%	8.40%	10.50%	13.00%	15.50%	18.00%
BBB	2.50%	7.50%	12.50%	15.50%	20.00%	25.00%	30.00%	32.50%
BB	4.50%	13.50%	22.50%	27.50%	35.00%	44.00%	46.50%	49.00%
B	7.50%	22.50%	37.50%	45.90%	58.50%	61.00%	63.50%	66.00%
CCC or lower	7.50%	22.50%	37.50%	45.90%	58.50%	61.00%	63.50%	66.00%
unrated	3.00%	9.00%	15.00%	18.40%	23.50%	29.50%	35.50%	38.00%

Category	Charge	Symmetric adjustment	Where
Type 1 equity: listed, EEA or OECD	39.00%	yes	Delegated Reg. arts. 168-169
Type 2 equity: everything else, and any fund not looked through	49.00%	yes	arts. 168-169, 84
Long-term equity investment	22.00%	no: fixed	art. 171a
Qualifying infrastructure investment / corporate	30.00% / 36.00%	partly (check the text)	arts. 164a, 164b
Property, on gross value	25.00%	no	art. 174
Currency, per currency, no diversification	25.00%	no	art. 188

Remember	Note
The step is not the agency rating: it is the supervisor's mapping of it	
Unrated, own assessment (art. 176a): step 3 is the general ceiling, step 2 only with the additional tests	
The charge is on market value, not par	
Symmetric adjustment = $\frac{1}{2} \times (\text{index} / 36\text{-month average} - 1 - 8\%)$, capped at ± 10 points: minus 4 at the average	
Aggregation: $\sqrt{(\sum \text{corr} \times \text{SCR} \times \text{SCR})}$, Annex IV; interest correlation 0.50 down, 0 up	

The look-through pack, field by field

Appendix C. Per position, per reporting date. A manager who can produce this has removed the single largest obstacle to insurance money.

Fund		Manager	
Insurer / prospect		Date	

Field	Why the insurer needs it	Supplied ?	Source system / owner	Gap to close
Instrument identifier	Aggregation with direct holdings			
Asset class	Which sub-module applies			
Market value	The base for every charge			
Credit quality step, or internal assessment with its methodology	First input to the spread table			
Modified duration (not maturity)	Second input to the spread table			
Currency, per position	Currency sub-module			
Issuer name and group	Concentration			
Fixed or floating; prepayable or not	Matching adjustment eligibility			
Undrawn commitment, not netted	Exposure measurement			
Infrastructure qualification evidence, per asset	Reduced charge, Chapter 17			
Coverage of the pack, stated honestly	The residue is charged at 49.00%			

Delivery	Answer
Frequency: quarterly (usable) or annual (conservative treatment between packs)	
Days after quarter-end the pack arrives	
Recipient: the capital or actuarial function, under a non-disclosure agreement	
Format agreed with the insurer (template, identifiers, units)	
Coverage this quarter, and what the residue is	

What look-through is worth to this fund

Chapter 10. The same fund, the same loans; only the reporting differs. Fill in your own charges and size.

Fund		Manager	
Insurer / prospect		Date	

Situation	Charge	Capital	Against full look-through
Full look-through, position by position			
Partial, by target allocation (grouped, prudent)			
Data supplied annually only			
No usable data: type 2 at 49.00 per cent			

The residue	Value
Coverage of the pack (c)	
Blended charge = $c \times \text{looked-through charge} + (1 - c) \times 49.00\%$	
Capital relief against no pack (proportional to c)	
Return on capital with the pack, against a complete pack (falls faster than c)	
Coverage below which the fund loses a place in the prospect's ranking	

Frequency	Value
Share of the book replaced each quarter	
Effective coverage of a complete annual pack $\approx 1 - 1.5 \times \text{quarterly turnover}$	
Extra capital from annual rather than quarterly packs	

The book: 18.90% looked through, 49.00% not, €45.2 million on €150.0 million. Look-through pays only where the underlying is cheaper than type 2: credit, listed equity, property, infrastructure. For unlisted equity it buys nothing (Case one prices coverage and frequency).

What are they already long?

Chapters 9, 11, 14 and 21, Appendix D. The capital cost of a fund is a property of the pairing. Ten seconds of questions decide whether the fund is cheap or expensive to this buyer.

Fund		Manager	
Insurer / prospect		Date	

Sub-module	Existing charge (€m)	Heavy / light	What your fund adds
Interest rate			
Equity			
Property			
Spread			
Currency			
Concentration			
Aggregated (Annex IV)			

Item	Answer	Evidence / note
The buyer		
Standard formula, internal model, or partial?		
Binding interest rate scenario: downward (liabilities longer than assets) or upward?		
Duration gap: would my asset close it or widen it?		
Matching adjustment portfolio? What is in it?		
Solvency ratio against its target		
Currency of the liabilities		
With-profits or unit-linked (loss absorption of technical provisions)		
Private markets bucket: room left?		
Who computes the capital charge, and have they seen the pack?		

The ranking the committee uses

Chapters 13 and 14. Expected return divided by capital required: on the marginal figure where a decision is made, on the standalone figure where assets are compared in the abstract. Say which.

Fund		Manager	
Insurer / prospect		Date	

Candidate	Expected return	Income (£m)	Standalone capital	Return on standalone	Marginal capital (this buyer)	Return on marginal	Rank: return / ROC

Before quoting a number	Answer
Is the return contractual income or back-ended appreciation? (Capital is held every year.)	
Net of fees? A further fee cuts the ratio by fee ÷ charge, in points	
All candidates together: joint cost against the sum of marginals	
Hurdle on return on capital: what clears it, not what tops it	
The real benchmark: a directly held investment-grade bond, looked through by definition, no fee	

The book: by return, private equity, private credit, listed equity, real estate; by return on capital, private credit 47.09%, real estate 27.20%, private equity 23.47%, listed equity 18.46%. On marginal capital at Calder Life: 50.23%, 38.18%, 26.28%, 20.71%. Joint cost of all four €171.9 million against €171.1 million summed.

Long-term equity: the twenty-two percent door

Chapter 6 (Delegated Reg. art. 171a). The manager cannot obtain the designation; the insurer can. The manager can make it defensible or impossible.

Fund		Manager	
Insurer / prospect		Date	

Item	Answer	Evidence / note
Conditions on the insurer (it must evidence them)		
Equities held in a clearly identified, ring-fenced portfolio, managed separately		
Portfolio assigned to specific liabilities, maintained over their life		
Ability and intention to hold at least five years on average; no forced sale in stress		
Liabilities not subject to surrender risk that would force a sale, or liquidity elsewhere		
Treatment not reversible at will (no dipping in and out)		
Conditions the fund can support or break		
Holdings in the EEA: listed on an EEA market or unlisted with an EEA head office. No OECD extension		
Defined fund life and predictable drawdowns		
No redemption rights, gates or side pockets that could force an early exit		
Closed-ended: the portfolio stays identifiable (no rolling subscriptions)		
Documentation supplied to support the five-year holding demonstration		

Worth	Value
Type 2 charge (49.00% + symmetric adjustment) less 22.00%, times the commitment	
Listed fund: 39.00% less 22.00% (available to type 1 too)	
Symmetric adjustment of the month (the relief is largest after a rally)	

The book: €40.5 million on a €150.0 million private equity commitment; €25.5 million on the listed fund. It cannot be combined with the infrastructure route on the same holding.

Matching adjustment: eligibility and value

Chapter 15 (Directive arts. 77b and 77c). Worth less than its reputation: test the cash flows, then discount, then apply the cap.

Fund		Manager	
Insurer / prospect		Date	

Item	Answer	Evidence / note
The product (the manager can draft it)		
Fixed cash flows the issuer cannot change unilaterally		
Prepayment: absent, or compensated so the investor can reinvest at equal or better quality (make-whole, Spens)		
Rate: fixed, or floating with a matched swap where the regime allows		
Fully drawn: no delayed-draw or undrawn tranche		
The insurer (the manager cannot deliver it)		
Assets ring-fenced and managed separately, no forced sales		
Liabilities with no surrender option beyond the prescribed floor		
Not combined with the volatility adjustment on the same liabilities		

Computation	Value
Spread earned on the assets (an assumption: state it)	
Fundamental spread for the quality	
Adjustment before the cap	
Cap, if below investment grade: spread on an IG asset of the same duration less its fundamental spread	
Matching adjustment after the cap	
Sleeve duration = the assets' duration	
Provisions released = $L \times (1 - ((1 + r) \div (1 + r + MA))^{\text{duration}})$	
Shorthand $MA \times \text{duration} \times L$, and by how much it overstates	

The book: $4.50 - 1.80 = 2.70\%$, capped at $2.50 - 0.45 = 2.05\%$; €11.9 million on a €150.0 million sleeve of 4.2 years (shorthand €12.9 million, 8.39% too high).

Qualifying infrastructure: the evidence pack

Chapter 17 (arts. 164a, 164b, 180). Assessed asset by asset, by the insurer. A fund labelled infrastructure whose holdings do not qualify is type 2.

Fund		Manager	
Insurer / prospect		Date	

Asset	Project or corporate?	Concession / offtake, counterparty standing	Demand risk insulated? (availability, RAB, contract)	Creditor protections	Revenue stability under stress: analysis	Construction complete?	Qualifies?

Worth	Value
Equity: 49.00% less 30.00% (project) or 36.00% (corporate), times the holding	
Debt: each 10 points of stress relief under art. 180 on the spread charge	
Size of the allocation that will bear the months of evidence	
Blended holding: two sleeves or clean position-level reporting	

The book: €28.5 million (project) and €19.5 million (corporate) on €150.0 million of equity; on the credit fund, even 40% relief saves only €11.3 million. Excluded as a rule: merchant power, greenfield before completion, volume risk, contracts shorter than the asset life.

The lever register

Chapter 18. Every lever on the same allocation, so that they can be ranked. Do not add them up: two land in different places, and two are alternatives.

Fund		Manager	
Insurer / prospect		Date	

Lever	Applie s?	Points	Euros	Lands in (SCR / TP)	What it costs the manager	Pursue?
Supplying look-through data						
Long-term equity status						
Qualifying infrastructure						
Matching adjustment cash flows						
Lengthening duration toward the liabilities						
Shortening duration (spread charge)						
Euro or hedged share class						
Unlevering, or an unlevered sleeve						
Own credit assessment of unrated exposures (art. 176a)						

The book, on €150.0 million: look-through on the credit fund €45.2m; long-term equity €40.5m (private equity) and €25.5m (listed); look-through on real estate €36.0m and on listed equity €15.0m; infrastructure €28.5m; matching adjustment €11.9m (technical provisions); lengthening the credit fund €4.9m (revised: the first edition prints €4.7m).

The insurance due diligence list, decoded

Chapter 20. Every item maps to a line in the capital calculation. The person who needs the data is not the person in the meeting.

Fund		Manager	
Insurer / prospect		Date	

What they ask for	What it is for	Ready?	Sent to (investment / capital function)	Date
Position-level holdings, each reporting date	Look-through, Chapter 10			
Credit quality step, or assessment with methodology	Spread table, first input			
Modified duration, position by position	Spread table, second input			
Currency of each holding	Currency sub-module, hedging			
Issuer identifiers	Concentration, with direct holdings			
Fund-level leverage and how it is measured	Gross-up of the charge			
Expected drawdown and distribution profile	Liquidity; the holding period of Chapter 6			
Fixed or floating, prepayable or not	Matching adjustment, Chapter 15			
Redemption terms, gates, side pockets	Forced sale, Chapter 6			
Documentation on infrastructure assets	Qualification, Chapter 17			

The sentence that goes with the strategy materials: is there a capital or actuarial contact who would like the look-through specification and a sample pack? (It also tells you whether they run the standard formula or an internal model.)

Before you pitch an insurer

Appendix D. Every question is answerable before the first meeting, and the answers change what is said in it.

Fund		Manager	
Insurer / prospect		Date	

Item	Answer	Evidence / note
About your own fund		
Sub-module after look-through; is the underlying cheaper than type 2?		
Weighted average credit quality step and modified duration		
Standard formula charge, computed from the tables; return on that charge		
Fund-level leverage: charge computed on gross?		
Currency; euro or hedged class available?		
Position-level pack: frequency and coverage		
Long-term equity designation supportable, or killed by redemption terms?		
Fixed, non-prepayable cash flows? Infrastructure that genuinely qualifies?		
Largest issuer exposure: concentration?		
About the buyer		
What are they already long? Standard formula or internal model?		
Matching adjustment portfolio; duration gap; solvency ratio against target		
Currency of the liabilities; who computes the charge		
About the ask		
Quoting return on capital, and a marginal figure for this buyer?		
Which lever applies, what it is worth to this investor, and what it costs me?		
Has the capital pack gone to the person who needs it?		

What goes wrong: the pre-meeting check

Chapters 19 and 25. Twelve failures, in rough order of frequency, and the structural moves that avoid them.

Fund		Manager	
Insurer / prospect		Date	

Failure	Risk here? (Y/N)	What we do about it
1. Pitching return, not return on capital		
2. No look-through data		
3. Look-through supplied where it buys nothing (unlisted equity)		
4. One capital number quoted to every prospect		
5. Leverage presented as an advantage		
6. Matching adjustment assumed, not tested against the documents		
7. Volatility and matching adjustments added together		
8. "Infrastructure" in the name taken for infrastructure in the regulation		
9. Symmetric adjustment quoted from last year, or applied to long-term equity		
10. Currency hedge offered without solving the margin		
11. The wrong person convinced: the capital function never got the pack		
12. A low charge read as a safe asset		

Structural move (Chapter 19)	Offered? Cost?
1. Euro share class, or hedged with the margin solved at fund level	
2. Shorter duration, or a short-duration sleeve	
3. Unlevered, or an unlevered sleeve	
4. Own credit assessment on unrated exposures, quoting the ceiling	
5. Qualifying and non-qualifying separated	