Comments Template on Consultation Paper on Further Work on Solvency of IORPs		Deadline 13 January 2015 23:59 CET
Name of Company:	Actuarial Association of Europe	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment/response in the relevant row. If you have no response to a question, keep the row empty. ⇨ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to **Consultation Paper on Further Work on Solvency of IORPs**.	
Reference	**Comment**	
General Comment	• **Harmonisation vs Member State options (within principles based EU framework)?** The pension deal between employer and employees/beneficiaries is the foundation for any framework. Leading principles should be: • The pension deal is an arrangement established in the context of the occupational relationship between employer and employees under social, labour and pension law of the Home Member State – it is typically not legally comparable with an insurance contract. At least in some countries this is a fundamental difference.	

- The pension deal is clear to all stakeholders,
- The value of the pension deal can be objectively measured (this could be a time-consuming process and the principal of proportionality might require simplifications and approximations especially in case of small and medium sized IORPs)
- The financing mechanism and the risks are clear to all stakeholders
- The development of the financing is monitored on the same objective basis
- The risks for the sponsor (if any), for the beneficiaries (if any) and for the IORP or insurer (if any) are identified
- These risks are clearly communicated
- Where the IORP or insurer has taken on risks, ensuring solvency in the form of capital or other commitments is needed
    - Many IORPs have not taken on risks other than operational risk
- As pensions are an arrangement between employer and employees it is principally them who should agree on the level of safety although this can be part of social and labour law in the Member State
- Harmonisation is about the valuation of the building blocks of the HBS.
    - Not about the pension deal as this is an agreement between employers and employees and governed by social and labour law of the Member State.

- **Use of HBS in Pillar 1, 2 or 3?**
    - The HBS reflects all building blocks of the pension deal and the financing of it.
    - The HBS is drawn up from the perspective of a member/beneficiary and is not a financial statement from the perspective of the IORP.
    - The words Holistic Balance Sheet are therefore not appropriately describing

| | the meaning of it. We would propose to use the term Holistic Framework.
• For supervisory purposes the HBS needs to be decomposed into the parts that relate to the obligations/risks of the IORP, of the sponsor and to the risks of the beneficiary | |

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	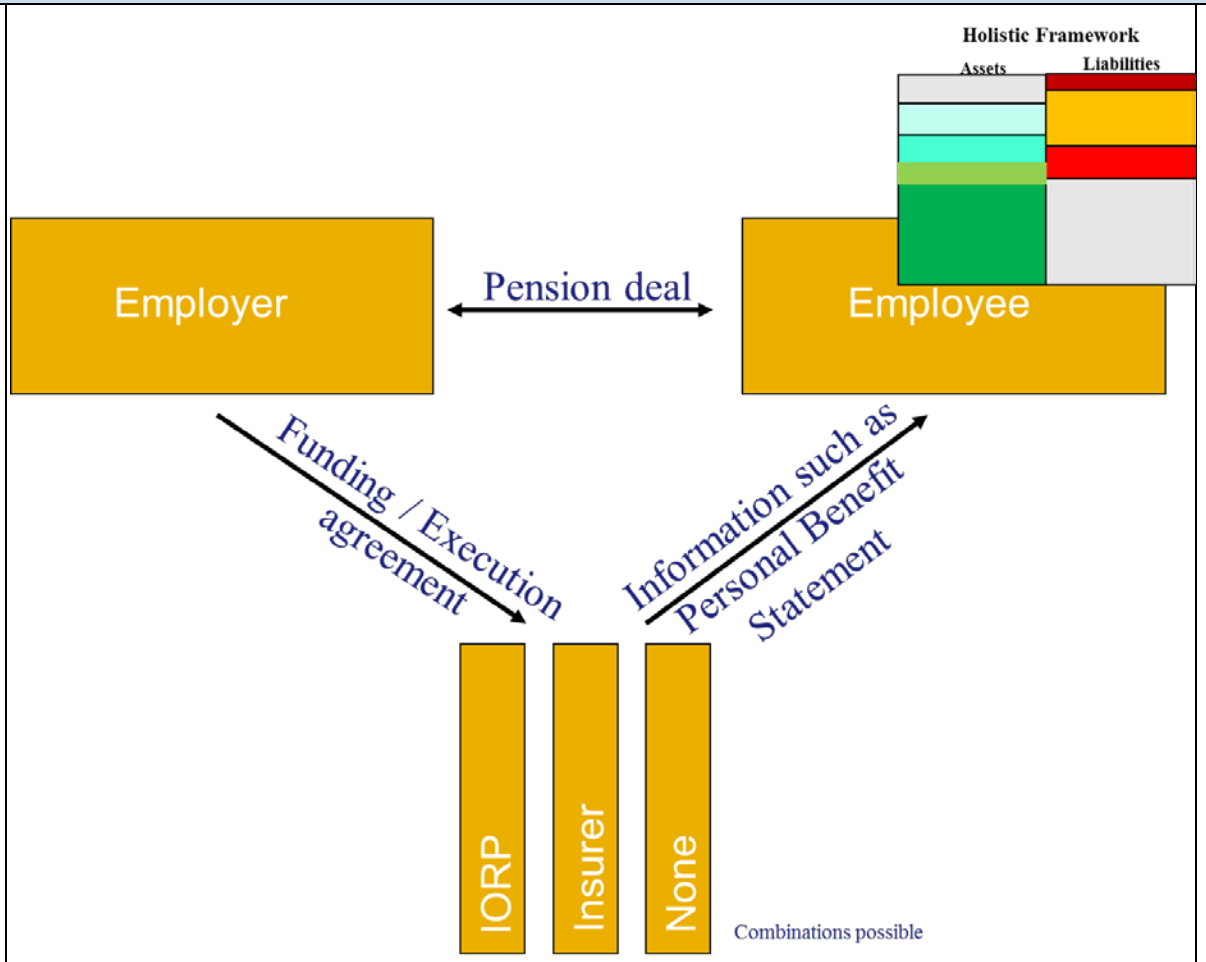	

	• HBS could possibly be used in Pillar 3 regulation in order to quantify and describe the pension deal and its financing to the supervisor and the (representatives of the) beneficiaries. The HBS is highly technical and not all parts will likely to be publicly available. We view the HBS first of all as a possible part of communication between experts and not immediately as a suitable tool for communication with the beneficiaries. Of course the communication to beneficiaries could make use of the information from the HBS and translating that information in a meaningful way. • HBS could be one of the tools to perform a risk evaluation for pensions (Pillar 2 regulation). The risk evaluation will likely go beyond the point of "just" a valuation at a certain point in time. In our view the risk evaluation for pensions should assess also future developments and include non-financial risks as well. This will in almost all situations link back to any communication/reporting in Pillar 3. • As said before HBS reflect the full pension deal and its financing from a member's/beneficiary's perspective (see also the diagram) and is not a balance sheet as such. It is a Holistic Framework that identifies all the different building blocks of a pension deal and how it is financed. In order to use it for Pillar 1 regulation only those numbers that reflect the funding/execution agreement with the IORP / are under the control of the IORP need to be extracted. It is this IORP-relevant subset of the HBS that could be used for Pillar 1 purposes. o As many IORPs are closer to a administrative body than to an insurer of pensions this should be reflected in any IORP assessment as well as in the communication to members/beneficiaries and sponsor o In those situations we expect the capital requirements to be low as they relate to operational risk only and not to economic or demographic risks • **Consistency with Solvency II?**	

	• A market consistent approach for pensions could be a starting point
	• The aim would be to describe objectively the pension deal and its financing
	• Further we would work from the principle of same risks <-> same capital
	• The risks for IORPs are in many situations significantly different from and less than those for insurers
	• SII focuses on a one year horizon for risk management and capital requirements. Given the long-term nature of pensions we would advise to take a long-term approach in the risk evaluation. A long term asset liability modelling (ALM) test could prove to be of great value (we do expect though that the use of stochastic ALM will be limited to sizeable IORPs). This would additionally provide information as to whether the financing system that is in place is robust enough in relation to the pension deal.
	• A short-term financial picture based on market consistent valuation also has relevance as the results of regular valuations inform the stakeholders on whether or not they are on track given the long-term horizon
	• On the discount rate:
	  ◦ If all conditionalities/risks are included in the cash flow a risk-free rate seems appropriate to value the cash flow (level A)
	  ◦ This would typically require a stochastic approach to model the cash flow
	  ◦ Most IORPs do not yet use stochastic models for various reasons, one being proportionality. In those situations the value of the cash flow can be estimated using a deterministic cash flow discounted using a risk free rate plus a risk premium that appropriately reflects the risks/conditionalities that are not modelled in the cash flow. This should be performed in such a way that if a stochastic model would have been used the outcome would be very similar.	

	• **Supervisory Framework** o The supervisory framework should reflect and respect the pension deal – and should be determined as appropriate for each Member State and its NCA o The supervisory framework should not require guarantees where they are not part of the pension deal nor require a too low discount rate where it would increase the value of the pension deal beyond that agreed between employers/employees. Neither should the supervisory framework accept higher discount rates than what would reflect the nature of the pension deal – as governed by social and labour law of each member state. o The supervisory framework should be aimed at understanding all elements of the pension deal and its financing, monitor how the plan is doing versus its objectives, require management actions if there is a (significant) deviation from the path to fulfilment of the pension deal and so ensuring that employers/employees live up to what they have agreed and that any communication is in line with the pension deal, the actual financial position and the expected future financial development • **Impact and transitional arrangements** o Any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. o existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for	

	current employees) should be retained (either indefinitely or if this was not workable for effectively a very extended period) o any reasonable approach could potentially be adopted for benefits under new promises, depending on how politicians decide to balance the conflicting demands of continuity, proportionality, market impact, transparency, member protection, consistency with insurance framework, harmonisation and respect for diversity between member states.	
Q1	No. Some of the shortcomings are explained in section 4.16. In addition, there is typically no direct "contract" between the IORP and the member, as is typically the case for an insurance contract. The legal relationship may be indirect though, for example, it may be an agreement between the sponsor and the IORP or the employer and the member. See also EIOPA's own "Mapping Exercise" under section 5.3. Starting with the premise that IORPs are not insurers, i.e. at most only secondarily financial institutions, we suggest deriving the definition as to what benefits and contributions are to be included in the valuation of the TPs from first principles that are appropriate for IORPs. One could start from the point of view of the member and ask: - Acquired / Vested rights : What amount of rights have I acquired as at today ? Are these rights funded? - Future rights: In the future, will I continue to acquire rights under the same conditions? Will my IORP continue to receive my contributions (and/or those of my employer) and granting me rights at the same conditions that currently? Is my IORP committed toward me for a limited time only?. We would suggest the use of a term such as "Boundaries of obligations and contributions" rather than "Contract boundaries". We think it is important to use a	

	different name not least because of the different nature of single - employer IORPs and insurers.	
Q2	Yes	
Q3	Some of the shortcomings are explained in section 4.16. In addition, there is typically no direct "contract" between the IORP and the member, as is typically the case for an insurance contract. The legal relationship may be indirect though, for example, it may be an agreement between the sponsor and the IORP or the employer and the member. See also EIOPA's own "Mapping Exercise" under section 5.3. Although we understand that the issue of defining contract boundaries under Solvency II has been fraught with difficulties, it has still not been finalized after many years of deliberations. We believe that these difficulties and potential for misunderstandings should not be transferred to IORPs. Starting with the premise that IORPs are not insurers, i.e. at most only secondarily financial institutions, we suggest deriving the definition as to what benefits and contributions are to be included in the valuation of the TPs from first principles that are appropriate for IORPs. We would therefore suggest use a term such as "Boundaries of obligations and contributions" rather than "Contract boundaries". We think it is important to use a different name not least because of the different nature of employer-own IORPs and insurers.	
Q4	Yes. We consider that the expressions "unilateral right or obligation of an IORP to terminate/amend …" and "fully reflect the risk" are not clearly defined and, in particular, would like to know what they mean, or supposed to mean, in each local context. We understand that the basis for EIOPA is the Call for Advice from the Commission and that the two expressions may mean the unrestricted ability to amend at a predetermined time in a way that may fully reflect the risks as determined at the time of amendment. Then we suggest that should be stated – or defined clearly somewhere.	

Q5	Yes, although we understand EIOPA is still working on explaining what may be relevant here (as per section 4.48) It would seem appropriate to recognise cashflows only in respect of benefits accrued to date or future contributions where some entity/person or combination of parties i.e. the IORP, the social partners (or the employer acting unilaterally) can terminate or amend the future accrual of benefits/payments of contributions.	
Q6	Broadly yes.	
Q7	Yes. However, sometimes this may be difficult in practice, since there is not always a clear and simple relationship between contributions and benefits (see 4.31).	
Q8	Yes.	
Q9	Yes. We suggest in a separate, to be defined position in the HBS (e.g. « surplus due to employer »)	
Q10	We understand that what is meant here are situations that are « planned » rather than « unanticipated ». We can't think of any cases that are planned. Unanticipated cases may indeed occur, since the «contract» is not stand-alone but is influenced by social legislation. For example, regarding the retirment age, the introduction of gender equality (particularly in the UK) or the extention beyond a certain age can have direct or indirect repercussions on the benefits originally envisioned upon «contract inception». In The Netherlands there is an obligation for industry-wide pension funds to accrue/pay-out benefits for employees of sponsoring companies that have gone bankrupt. In those cases the IORP has not received contributions or has received only part of the contributions whilst the pension obligation to the emplyoees remains. These examples are yet another area where IORPs are not identical to insurers.	
Q11	We would suggest that the two approaches (dependent on contributions and not dependent on contributions) should be integrated into the definition as EIOPA has done	

	in 4.46.	
Q12	The approach appears to be sensible. We appreciate that it is justified by transparency. However, where there are relevant measures that provide relief (benefit reduction mechanisms), these should be applied too.	
Q13	These paragraphs take Solvency II as a starting point and conclude that the definitions are not sufficient in a pension context. We know that pensions are different so we would suggest to describe the pension varieties and describe how each should be seen in the context of countract boundaries for pensions.	
Q14	Although we understand the principle being reached for, we are uncertain because of the definition's complexity and undefined language. We would recommend that the phrases «unilateral right or obligation to terminate the agreement or to amend contributions/obligations to fully reflect the risk» be included in the definition.	
Q15	We suggest waiting for the final definition.	
Q16	We suggest waiting for the final definition.	
Q17	Although we understand the principle being reached for, we are uncertain because of the definition's complexity and undefined language. We would recommend that the phrases «unilateral right or obligation to terminate the agreement or to amend contributions/obligations to fully reflect the risk» be included in the definition. Does the mere possibility to do so in future allow the IORP to exclude all future contributions/obligations? If the « full reflection of risk » is valued under a different regime to the one governing TPs, does this fulfil the condition?	
Q18	Ideally, 2a and 2b should be combined, if this makes the definition easier to follow.	
Q19	We are not aware of any such cases.	
Q20	Yes.	
Q21	Although we understand the principle being reached for, we are uncertain because of the definition's complexity and undefined language. We would recommend that the phrases «unilateral right or obligation to terminate the agreement or to amend	

	contributions/obligations to fully reflect the risk» be included in the definition. Does the mere possibility to do so in future allow the IORP to exclude all future contributions/obligations? If the « full reflection of risk » is valued under a different regime to the one governing TPs, does this fulfil the condition?	
Q22	No ; the concept itself should be clarified/explained.	
Q23	The examples are very helpful indeed but we believe that the definitions can be clarified. We had difficulties in understanding example 6. In particular, we don't understand the logic underlying points a. – c.	
Q24	We think 4.66 to 4.72 of the consultation paper sets out quite well the issues here. We are aware that there has been much discussion within EIOPA and between supervisors about discretionary/mixed/conditional benefits. We are of the view that "mixed benefits" should be split into "pure discretionary" or "conditional" as suggested in 4.71 as this would reduce the complexity. To our mind, "conditional" benefits are part of the promise (and in this we include "custom and practice" and "constructive obligations") and should be valued (and probably can be, albeit this may be complex where it depends on future funding levels); allowance can be made for their conditionality in the valuation or in the SCR if we have one i.e. they require less protection than unconditional benefits. Anything which is "pure discretionary" should be ignored completely and in pillar2 as well. As an additional remark we would point at the importance of properly identifying the interactions of benefits classifications with other topics: contract boundaries/benefits reduction/risk margin/coverage/supervisory response? It also depends on the use of the HBS (pillar 1 incl. SCR, pillar 1 excl. SCR, pillar 2) and the related consequences.	
Q25	We expect a risk of circularity between all those elements and several scenarios should be tested also given the local legislation applicable (e.g. possibility to adapt benefits, legal enforceability of sponsor support). Some specific rules and priorities in the events	

	occurring should be if possible defined in agreement with the social partners	
Q26	The better the pattern is known, the better a quantification can be made. Given the nature of the decision-making a stochastic model is best fitted for the job. The pattern of decision-making could well be based on an assessment using a different (than a pure market consistent) valuation base. If that is the case this should be incorporated in the evaluation. A pure market consistent valuation appears indeed to be difficult under practical considerations given the numerous interactions between “options” (conditional benefits/benefits reduction/sponsor support/sources of own funds,…). Such a valuation might not be representative at the end and should be completed or replaced when necessary by a qualitative assessment might provide more relevant information. Having a clear view on all the interactions and assessing the elements that could be quantified contributes however to a sound risk management. The proportionality principle should play here a central role.	
Q27	We don’t think that a reasonable estimate of expected future payments of pure discretionary benefits can be made give the very nature of these benefits. Of course if pure discretionary benefits were to be recognised in a holistic balance sheet IORPs need to produce a best estimate. Given the nature of these benefits we don’t think that any best estimate is providing a reliable and meaningful number. We would opt not to include a value of pure discretionary benefits in the holistic balance sheet . We would argue strongly against any attempt to describe/quantify what these might be in future as this could raise unreasonable expectations (assuming the member understood it).	
Q28	We agree that it should be possible to provide some estimate of expected future payments of mixed benefits. Their characteristics should be clearly described pointing out	

	the conditional versus discretionary character. The closer they are to pure conditional benefits in the spectrum the better to provide a reasonable estimate. The estimate will be very weak and probably not very useful if the mixed benefits are close to pure discretionary benefits. Given the nature of the benefits and the decision-making around, a stochastic model is probably best fitted for the job. The pattern of decision-making could well be based on an assessment using a different (than market consistent) valuation base. If that is the case this should be incorporated in the evaluation as part of the modelling of the rules for the decision-making. The quantification result should be on a market consistent basis likewise the other other items in the holistic balance sheet.	
Q29	In some member states (e.g. UK , Ireland), the scheme's governing documents provide that the employer should pay the contributions (agreed with the Trustees and on the advice of the Actuary) which are required to meet the balance of cost of future benefits. This has generally worked in the past, so there is historic evidence of sponsor support being delivered. In more recent times, employers have not been able to pay the contributions required, so there have been benefit reductions and scheme wind-ups although in many of these the employer would have made some additional contributions i.e. delivered some sponsor support. In our view, allowance must be made for non-legally enforceable sponsor support on a basis which the IORP/sponsor/supervisor think is realistic, which probably means that it should be a Member State option.	
Q30	No , another option for valuing off-balance capital instruments would be to value them taking into account the conditions under which they could/would be called up.	
Q31	We would support our alternative option. In our view option 1 would result in a too high value as it could in theory be unlimited. Option 2 adds a condition of underfunding scenarios for the valuation, which probably is closer to the reality in many situations. Our alternative option should be seen as a more general application of option 2 and would look at all conditions that apply, if any. It might well be that there are certain constraints to the off-balance capital instruments. Without knowing what the different conditions are	

	in place it might be that the calling up depends on the level of underfunding, is perhaps not the full difference in order to be fully funded again but less. Calling up could als be possible if not in underfunding but in situations where otherwise a certain minimum indexation could not be granted. So in our view option 2 might be too tight as it is described now and we would support a valuation that very specifically looks at all the conditionalities with regard to calling up off balance capital instruments.	
Q32	Yes, we agree	
Q33	Yes, we agree	
Q34	Option 3 would have our preference as subordinated loan repayment has a direct impact on the solvency coverage and should be subject to supervisory approval. Valuing stochastically the repayment of subordinated loan is actually a management action as part of the capital management and falls under pillar 2.	
Q35	Yes, we agree. Which approach to adopt might depend on the benefit reduction mechanism. An ex-ante benefit reduction mechanism is not necessarily a mechanisms of last resort as is referred to under 4.91. Generally we would expect ex-ante benefit reduction mechanisms to be valued via the direct approach. Similarly for a benefit reduction in the event of sponsor default/sponsor insolvency. These benefit reductions are normally limited. So the valuation via the direct approach would seem appropriate. Only those cases where the benefit reduction could be unrestricted in amount qualify for the use of the balancing item approach in our view.	
Q36	Yes, this is the most practical approach given the significant differences in IORP design that exist across member states. Naturally, the success of a principle-based approach relies on a clear set of principles being universally understood and applied.	
Q37	The market-consistent approach allows alignment with Solvency II and with the wider global shift in solvency methods for long-term liabilities that is currently underway. As has been seen in the life assurance sector over the last decade, the introduction of market-	

	consistent techniques and the transition to them from other approaches can be a source of technical difficulty and its results can have challenging economic implications. In the context of actuarial standards and professionalism, we believe that it is important that jargon is not used in a misleading way. In particular, if the final methodology does not have the standard properties of market-consistent valuation, it is best that it is called something else.	
Q38	Yes, we agree that a market-consistent valuation of sponsor support must be a function of the affordability of the sponsor (i.e. the intended timing and size of the additional support) and the credit risk of the sponsor. However, we would caution that whilst these factors are necessary for a market-consistent valuation, they are not sufficient. In particular, a discount rate / cashflow expectations method must be used that is consistent with relevant market prices (in the case of sponsor support, the market price of traded debt of the sponsor, or another entity with a similar credit risk profile). Broadly speaking, two equivalent types of method could be used: the discount rate that is used to discount expected sponsor cashflows must be risk-adjusted (generally upwards from the risk-free rate); or the expectations for sponsor cashflows are calculated using risk-neutral probabilities (generally higher than real-world probabilities). Discounting 'real-world' expectations of credit-risky cashflows at risk-free interest rates will not produce a value that is market-consistent in the sense used in Solvency II or in actuarial science or economics more widely. (Also, it can be noted that the QIS technical specification quoted in paragraph 4.106 does not necessarily imply a market-consistent valuation.)	
Q39	We agree that the principle of proportionality should be applied to the sponsor support valuation, and that redundant calculations should be avoided where it is reasonably clear that the range of results they can produce will be immaterial. So we are comfortable with	

	the concept of sponsor support being a balancing item when it has been established that the IORPs' credit risk exposure to the sponsor is immaterial (this credit exposure will be a function of both the credit quality of the sponsor and the size of any deficit that the IORP has).	
Q40	The conditions described in section 4.121 are quite broad. The explanation in the paragraph is somewhat confusing: an asset with a 1-year default rate of <0.5% does not have zero economic capital requirement under Solvency II or any 1-year 99.5% market value VaR measure (as the value of the asset may be reduced by a deterioration in credit quality over the 1-year risk horizon). Paragraph 4.124 tries to address this point by suggesting that another condition that should be met is that the default rate of the sponsor must also be likely to remain stable over time. This is generally not how credit ratings work: if such a condition were met, the asset would have a higher credit rating! We therefore caution that further careful analysis is performed before setting the credit rating 'hurdle' for the assumption of full loss-absorbency at as low as a BBB credit rating. It should be noted that assuming a long-term BBB credit risk is risk-free will overstate its value materially (i.e. by 10%-20%).	
Q41	We are not aware of any such cases	
Q42	We believe the calibration of the M parameter is an important assumption that merits a fuller technical investigation. Further, an exclusive focus only on the M parameter may miss important sources of risk. For example, if a sponsor is B-rated and has no short-term plans to make additional payments into an under-funded IORP, the security of the IORP may be at risk, irrespective of how big the sponsor is relative to the IORP.	

Q43	Yes - assuming that the objective of the process is to assess absolute member security, rather than to assess the ability of the existing assets of the IORP and support from its sponsor to deliver member security.	
Q44	Yes - if the objective of the solvency assessment is to ensure the security of all the promised member benefits, then that would imply that the pension protection scheme should only be considered as a balancing item when all the promised benefits are protected. For the avoidance of doubt, we would advocate the possible proceeds of the pension protection scheme being included as an asset on the balance sheet in all cases including when it doesn't guarantee 100% of the benefits (but just not as an automatic balancing item).	
Q45	No - if we are prepared to assume that the pension protection scheme is risk-free, then pension member security is fulfilled by the legal arrangement and financial strength of the pension protection scheme. In that case, the funding level of the IORP would purely be a matter between the pension protection scheme and the IORP and there would be no need from a solvency perspective to require a minimum funding level.	
Q46	Yes. A stochastic approach, whilst more complex and costly, may be able to provide a materially more accurate measure of the value of sponsor support and its impact on member security. It therefore seems reasonable for the option to be available to IORPs that wish to undertake such an approach.	
Q47	Guidance or principles to be adhered to in the following areas will likely be necessary: • Principles for setting assumptions for the modelling of the size, timing and incidence of future sponsor support cashflows. • Principles for setting assumptions for the probability of default of the sposnosr and how this correlates with the size of the IORP's assets and liabilities. • Principles for setting assumptions for the modelling of the asset strategy of the IORP. • Principles for setting assumptions for the modelling of what is recoverable from	

	the sponsor in the event of sponsor default. • Technical stochastic modelling guidance on the joint specification of probabilities (for sponsor default and asset returns) and discount rates for sponsor support that conform to market-consistent valuation principles.	
Q48	No.	
Q49	Yes, this form of simplified stochastic model can be a useful first-order measure of value of sponsor support. It should be noted that several of the simplifications may tend to have an effect of over-stating the sponsor support value, in particular: • The assumption that sponsor default rate is uncorrelated with the size of pension fund assets may also tend to systematically over-state the value of sponsor support. • The assumption of a constant default rate will tend to under-state long-term default probabilities and hence over-state sponsor support values. Finally, it is unclear from the description in the Consultation Paper if the sponsor support is discounted at a risk-free interest rate. If so, this would also tend to over-state the market-consistent value of sponsor support (assuming the default probabilities being used in the calculation are 'real-world' rather than 'risk-neutral').	
Q50	Perhaps standard assumptions for volatilities and correlations for different classes of pension fund assets and liabilities could be provided. Methods to estimate default probabilities such as those discussed later in the CP.	
Q51	Yes, this is another reasonable simplification approach. It also has the over-statement biases that arise from ignoring effects such as tendency for defaults to increase over time, but this technique also has a simplification that will tend to have an opposite effect: the assumption of zero volatility for pension fund assets and liabilities may under-state the value of the sponsor support (by ignoring the scenarios where sponsors would make larger contributions in the future due to increased deficits).	

Q52	Methods to estimate default probabilities such as those discussed later in the CP.	
Q53	This approach is similar in spirit to QIS simplification 2. It can be considered as a generalisation of QIS2. The significant differences are that this method provides greater flexibility in the specification of the sponsor support cashflow schedule; and the sponsor's annual default rate is not assumed to be constant (and is assumed to be risk-neutral).	
Q54	It may be possible to produce a more general version of the QIS2 spreadsheet that can be used for both methods.	
Q55	It is not clear why the assumed timing of the sponsor support cashflows is tied to the assessment of financial strength rather than to the IORPs actual recovery plan. The need for a convenient way of estimating sponsor default probabilities exists for all these methods and such a method should not be considered tied to the other assumptions in the ASA model.	
Q56	We do not understand what proposed adaptations are being referenced here	
Q57	Yes.	
Q58	We believe the calibration of the M parameter merits further specific technical investigation and it should be noted that this approach may miss important drivers of the IORPs exposure to sponsor credit risk.	
Q59	It may appropriate to constrain the use of the M parameter approach to cases where sponsor credit rating is above a certain level.	
Q60	All three approaches are reasonable sources of information on sponsor default probabilities. If the sponsor support valuation is intended to be market-consistent, it is necessary for either the estimated 'real-world' default probability to be transformed into a risk-neutral one, or for the discount rates used in the valuation to be risk-adjusted (i.e. to be higher than the risk-free rate).	
Q61	It would be preferable for the assumptions around timing of sponsor support to be as closely aligned to the expected timing of cashflows from support as is practical. Links to the recovery plan are more likely to produce meaningful results than assumptions related	

	to the duration of liabilities. However, we recognise the need for practical methods and the duration of liabilities may be a reasonable starting point in the absence of other information.	
Q62	This is a reasonable approach.	
Q63	No.	
Q64	The principle of considering the sponsor support provided by multiple sponsors by treating it as a single sponsor with values based on the combined values of the individual sponsors should be a reasonable, practical and prudent approach (prudent in that it essentially assumes that the individual sponsors' credit risks are perfectly correlated when this can only be the worst case for the IORP). We believe focusing on the largest sponsors that provide a required level of sufficiency of sponsor support is also a reasonable and proportionate approach to managing the complexity associated with IORPs with very large numbers of multiple sponsors.	
Q65		
Q66		
Q67		
Q68		
Q69	Yes	
Q70	The explicit valuation of the pension protection scheme would provide useful transparency to the expected relative roles of the sponsor and the pension protection scheme in providing member security. We agree with EIOPA that it would not be cost effective or worthwhile for each IORP to have to determine a value of the PPS applicable to them, and we recommend that some simplified and consistent approach be acceptable.	
Q71	Yes, providing it is reasonable to assume the pension protection scheme is risk-free and it protects all the promised IORP member benefits.	
Q72	The concept of a HBS is attractive, as it would enable supervisors "to take into account	

	these (national) specificities of IORPS by allowing for the full range of security and benefit adjustment mechanisms to be recognised" (5.4) in an EU-wide consistent framework. However, as was demonstrated by the QIS, there are many practical difficulties in producing a HBS: under some assumptions it may never balance (where sponsor support is subject to credit risk), and in others it may always balance (where unlimited benefit reductions are applicable). In addition, the quantification of sponsor support is a complex issue which in many cases will require the adoption of simplifications which mean that it may no longer be market consistent. Although this consultation may enable EIOPA to develop its thinking on the valuation issues which caused difficulty in the QIS, it is our view that a robust, meaningful and fully holistic HBS is unachievable. Furthermore, the HBS provides a "snapshot" at a point in time, and does not provide useful insight into the future development of the pension promises or likely capital requirements. Against this background, we would question whether it is appropriate to use the an EU wide HBS as the determinant of pillar 1 requirements, and would suggest that member states should be able to set these at national level, recognising the specificities and background the IORPs in that country, in accordance with a principles-based framework (i.e. some refinement of the existing IORP provisions).	
Q73	We recognise the importance of the pillar 2 requirements and would support the use of a "holistic framework" as one of the approaches by reference to which IORPs could be required to demonstrate sustainability and risk management, perhaps as part of the proposed "risk evaluation for pensions". National supervisors could specify (and could refine as best practice emerges) some minimum requirements required and it would be for IORPs to undertake their own assessment and report to the supervisors, who would have the power to seek additional information if they had concerns about the	

	sustainability of the IORP. It may be thought that the costs of developing a complex "holistic framework" would outweigh the benefits and we recommend that this be assessed in the next QIS. Alternative tools such as ALM or continuity testing might be more cost-efficient.	
Q74	We strongly support disclosure to members and beneficiaries of the security of their pension promises, as outlined in 5.33: " the HBS would provide IORPs and their stakeholders with a transparent view of the extent to which pension obligations can be supported by financial assets, sponsor support and pension protection schemes, and the extent to which benefit reductions may occur in future." Disclosure to members must be in a form that is understandable to them or at least the reasonably well informed ones. It is unlikely that disclosure of the HBS or the risk evaluation report by the IORP to the supervisory authority would, on their own, provide meaningful information to the members.	
Q75	We agree that supervisory authorities must have power to take action where an IORP is unsustainable and no satisfactory proposal to rectify this has been put forward by the IORP. This might arise following consideration by the supervisory authority of the pillar 2 information provided to the supervisory authority. The action to be taken would depend on the circumstances of the case and the MS concerned, but could for example include additional capital requirements, a recovery plan or benefit reductions (or a combination of these).	
Q76	We agree that in countries where sponsor support is not generally legally enforceable (e.g. Ireland), many sponsoring employers, particularly larger multinational or semi-state employers, have provided additional support to IORPs when required, and are committed to doing so in future, on a voluntary basis. To place no value on this "non-legally enforceable sponsor support" understates the actual security of the pension	

	entitlements, but equally it would be inappropriate to place the same value as on legally enforceable sponsor support. We suggest that the IORP be required to determine a value, making whatever discount it considers appropriate for the voluntary nature of the support (which may depend on the provisions of the IORP documents, other legally binding agreements and the company's structure) and the supervisory authority could challenge this if they considered the value inappropriate i.e. Option 1.	
Q77	As noted, including pension protection schemes gives the members a more accurate picture of the overall security of their pensions. Accordingly we support option 1, although we recommend that the security provided by the pension protection scheme be separately quantified and reported.	
Q78	Yes. Where pure discretionary benefits may be granted at some future date, but there is no reasonable expectation of them, and no basis for calculating technical provisions in respect of them, we strongly recommend that they be excluded.	
Q79	Option 3. Where there is a reasonable expectation that mixed benefits will be granted in future, based on custom and practice or some published aspiration, it is our view that, in general, technical provisions should be included in respect of them. However, we would support the proposal that this decision be made by the IORP subject to approval at the MS level.	
Q80	Option 2. Where there is an expectation that benefits may be reduced in future, based on ex-ante provisions, it is our view that, in general, these may be recognised in the HBS. We do not think that it would, in general, be appropriate or indeed practical to include ex-post reductions or reductions due to sponsor default in the HBS. However, we would support the proposal that this decision be made at the MS level.	
Q81	No.	

Q82	Yes. However, the concept of a HBS which recognises all steering instruments is not compatible with an SCR which considers a stressed situation.	
Q83	Yes. However, the concept of a HBS which recognises all steering instruments is not compatible with an SCR which considers a stressed situation.	
Q84	Yes. However, the concept of a HBS which recognises all steering instruments is not compatible with an SCR which considers a stressed situation.	
Q85	The question asks what level of technical provisions should be covered by financial assets, not what level of technical provisions should be included in the HBS. We cannot say Level A or Level B as it depends on the pension deal and which part of it is being provided through the IORP. In addition, the discussion on level A or level B is only relevant when the risks/conditionalities are not modelled in the cash flow. If they are, then level A would be the appropriate discount rate. If they are not (straightforward deterministic cash flow projection) the discount rate should be level A + an appropriate risk premium. The risk premium should reflect the risks/conditionalities of the pension promise (insofar not modelled in the cash flow). In summary: i. "Hard promise" – need to establish Level A technical provisions, but do not need to hold financial assets at this level if there are other mechanisms e.g. sponsor support. ii. "Softer promise" – need to establish technical provisions which recognise the softness i.e. either Level B, or Level A with risks/conditionalities modelled in the cashflows, but do not need to hold financial assets at the relevant level if there are other mechanisms e.g. sponsor support. iii. Either – need to hold financial assets equal to the technical provisions if there are no other mechanisms e.g. sponsor support, benefit reductions In this context, "hold financial assets" includes "establish a recovery plan to reach a	

	position where financial assets are at this level". Whilst coverage of Level A technical provisions by financial assets provides greater security for the pension promise, the reality is that in the case of many IORPs this would require significant additional capital contributions from the sponsoring employer which it may not be in a position to make without seriously damaging its business, and hence would require the closure of the IORP and/or a reduction in benefits. The sponsor may be able to provide support over the long term which will enable, with a high degree of probability, the benefits to be paid as they fall due but will retain the ability to invest in the business to underpin the value of this sponsor support, thereby maintaining the pension promise. In addition, using level B reserves does not disincentivise IORPS from investing in real assets to the long term benefit of the (EU) economy: the option to reduce risk and the level of sponsor support required (i.e. move to a self-sufficiency basis) is available to those IORPs/sponsors who want to do so by investing in low risk bonds, in which event level A and level B coincide.	
Q86	We consider that this should be a member state option, subject perhaps to some overarching principles to be set out in the Directive.	
Q87	The question asks what level of technical provisions should be covered by financial assets, not what level of technical provisions should be included in the HBS. We cannot say Level A or Level B as it depends on the pension deal and which part of it is being provided through the IORP. In addition, the discussion on level A or level B is only relevant when the risks/conditionalities are not modelled in the cash flow. If they are, then level A would be the appropriate discount rate. If they are not (straightforward deterministic cash flow projection) the discount rate should be level A + an appropriate risk premium. The risk premium should reflect the risks/conditionalities of the pension promise (insofar not	

	modelled in the cash flow). In summary: i. "Hard promise" – need to establish Level A technical provisions, but do not need to hold financial assets at this level if there are other mechanisms e.g. sponsor support. ii. "Softer promise" – need to establish technical provisions which recognise the softness i.e. Level B, or Level A with risks/conditionalities modelled in the cashflows, or something in between, but do not need to hold financial assets at the relevant level if there are other mechanisms e.g. sponsor support. iii. Either – need to hold financial assets equal to the technical provisions if there are no other mechanisms e.g. sponsor support, benefit reductions In this context, "hold financial assets" includes "establish a recovery plan to reach a position where financial assets are at this level".	
Q88	We consider that this should be a member state option, subject perhaps to some overarching principles to be set out in the Directive.	
Q89	This would be a pragmatic way to retain MS options within an EU wide prudential framework, and might help to encourage the establishment of cross border schemes where there may be national concerns about regulatory arbitrage.	
Q90	We consider that this should be a member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive.	
Q91	We consider that this should be a member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive. [The existing term "limited period of time" is open to interpretation and some more explicit wording should be used e.g. 5 to 10 years.]	

Q92	We consider that this should be a member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive. One would not expect a supervisor to approve a very long recovery period in the absence of some security mechanism i.e. strong sponsor support or pension protection scheme.	
Q93	We consider that this should be an IORP specific or member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive.	
Q94	We consider that this should be a member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive.	
Q95	We consider that this should be a member state option or, if allowed under social and labour law, be agreed at the level of the pension promise, subject perhaps to some overarching principles to be set out in the Directive. One would not expect a supervisor to approve a very long recovery period in the absence of some security mechanism i.e. strong sponsor support or pension protection scheme.	
Q96	We agree that the supervisor should require a recovery plan to be put in place, and that this must be approved by the supervisor on a MS basis. We do not think it is practical to define specific supervisory responses at the EU level.	
Q97	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any additional security mechanisms supporting the promised benefits (such as sponsor support, pension protection schemes and conditionality in benefits).	

	It seems to us that adhering to this principle means that: (a) The selected approach will in practice need largely to retain existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees). Otherwise, either the employer or the employee may object that the promise being provided (and hence its value) is being retrospectively altered to his or her disadvantage (with the impact not necessarily being uniform even within a given member state). (b) However, any reasonable approach could be adopted for benefits yet to be accrued or already promised. If politicians so wished (and EU treaties permitted) then this could include an approach that aimed to harmonise the strength of the 'pension promise' across member state for such benefits. Harmonisation might be considered desirable to reduce the likelihood that benefit provision will migrate to member states or structures that offer the least security of benefits. It might also be considered desirable to maximise the transparency and comparability of the 'pension promise' across the EU or from other cross-border perspectives. Conversely, it might be considered undesirable because it might impact too much on social and labour law within individual member states and if taken to its logical extreme would also favour harmonising where practical the underlying security mechanisms etc.. Any such harmonisation should ideally refer to a full HBS that takes into account all contributions to the strength of the pension promise. None of Examples 1 to 6 appear explicitly to recognise the potential need to differentiate between benefits already accrued and benefits yet to be accrued. However, this may be EIOPA's intention when referring to transitional measures. Of the examples given,	

	Example 6 appears to be the one closest to the current position and hence the one that the above principle would favour for benefits accrued to date. As explained above, any of Examples 1 to 6 (or others) could potentially be adopted for benefits yet to be accrued depending on how politicians decide to balance the conflicting demands of continuity, proportionality, market impact, transparency, member protection, consistency with insurance framework, harmonisation and respect for diversity between member states.	
Q98	See answer to Q97. The principle set out there would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q99	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any additional security mechanisms supporting the promised benefits (such as sponsor support, pension protection schemes and conditionality in benefits). It seems to us that adhering to this principle means that: (a) The selected approach will in practice need largely to retain existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees). Otherwise, either the	

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Q100	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q101	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any	

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Q102	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding	

	requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q103	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any additional security mechanisms supporting the promised benefits (such as sponsor support, pension protection schemes and conditionality in benefits). It seems to us that adhering to this principle means that: (a) The selected approach will in practice need largely to retain existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees). Otherwise, either the employer or the employee may object that the promise being provided (and hence its value) is being retrospectively altered to his or her disadvantage (with the impact not necessarily being uniform even within a given member state). (b) However, any reasonable approach could be adopted for benefits yet to be accrued or already promised. If politicians so wished (and EU treaties permitted) then this could include an approach that aimed to harmonise the strength of the 'pension promise' across member state for such benefits. Harmonisation might be considered desirable to reduce the likelihood that benefit provision will migrate to member states or structures that offer the least security of benefits. It might also	

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Q104	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q105	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any additional security mechanisms supporting the promised benefits (such as sponsor support, pension protection schemes and conditionality in benefits). It seems to us that adhering to this principle means that: (a) The selected approach will in practice need largely to retain existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees). Otherwise, either the	

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Q106	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q107	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any	

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Q108	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding	

	requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q109	We believe that any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. As noted above (and as explained in the Consultation Paper) the strength of the 'pension promise' in relation to benefits that have already been accrued depends partly on how these benefits will be financed (including how much has already been accumulated in an IORPS to support the benefits) and partly on the impact of any additional security mechanisms supporting the promised benefits (such as sponsor support, pension protection schemes and conditionality in benefits). It seems to us that adhering to this principle means that: (a) The selected approach will in practice need largely to retain existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees). Otherwise, either the employer or the employee may object that the promise being provided (and hence its value) is being retrospectively altered to his or her disadvantage (with the impact not necessarily being uniform even within a given member state). (b) However, any reasonable approach could be adopted for benefits yet to be accrued or already promised. If politicians so wished (and EU treaties permitted) then this could include an approach that aimed to harmonise the strength of the 'pension promise' across member state for such benefits. Harmonisation might be considered desirable to reduce the likelihood that benefit provision will migrate to member states or structures that offer the least security of benefits. It might also	

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Q110	We would favour a 'transitional' arrangement in which benefits accrued to date or already promised were subject to existing valuation standards, minimum funding requirements and accompanying recovery periods etc. (either indefinitely or if this was not workable for effectively a very extended period) and if changes are made to such standards etc. then they only apply to benefits yet to be accrued i.e. new promises.	
Q111	The AAE agrees with EIOPA that "it would be helpful to identify situations where simplifications are possible and appropriate". Such simplifications could include excluding some items (e.g. in calculation of SCR) which are unlikely to be material, and permitting simplified approaches to be used , particularly for small and medium sized IORPs.	