

**Comments Template on
Consultation Paper on Further Work on Solvency of IORPs**

**Deadline
13 January 2015
23:59 CET**

Name of Company:	AEIP The European Association of Paritarian Institutions of Social Protection	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ 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 <u>empty</u>. ⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Consultation Paper on Further Work on Solvency of IORPs.</p>		
Reference	Comment	
General Comment	<p>Preliminary remarks AEIP would like to underline that Pension Security needs to take into account the overall pension system of a country, including the balance between security, sustainability and adequacy. We reiterate in this respect, that pensions fall under the subsidiarity principle. Therefore, we would like to express our doubts whether the HBS approach can be consistent with the principles of subsidiarity and whether further harmonization of quantitative requirements is warranted.</p> <p>AEIP welcomes the mapping exercise which shows the major existing differences between and in</p>	

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the Member States with regard to occupational pension provision. These differences, in combination with the afore-mentioned subsidiarity principle, are an additional reason for us to be against harmonizing prudential rules for occupational pensions in Europe. We fear adverse macro-economic effects of capital requirements (due to the proposed Solvency Capital Requirement (“SCR”) and a lower incentive for employers to offer occupational pensions. We consider the Holistic Balance Sheet (“HBS”) implementation to be costly and thus having a negative impact on the benefits for the IORP members. In addition, we think that the HBS is way too complex and costly for especially small and medium sized IORPs.

According to us first and foremost, the fundamental conceptual shortcomings of the HBS should be addressed and discussed. Afterwards, it should be decided for what purpose the HBS could be used, if at all. This should be analysed during a sufficiently long consultation period with sufficient time for EIOPA to draw conclusions from the answers of stakeholders. These conclusions may provide a better and more fruitful lead for a more focused and informative Quantitative Impact Study (QIS), if deemed appropriate.

We therefore invite EIOPA to start thinking about alternatives to the HBS, such as ALM studies and continuity analyses. These might serve the same goals as the HBS, with the advantage of lower complexity and costs and less model uncertainty.

In general, we deliberate on a possible use of the HBS in the different parts of the IORP Directive:

1 Use for capital requirements (in pillar 1)

The HBS is conceptually wrong as an instrument for capital requirements. It is undesirable to set up capital requirements for conditional benefits (let alone discretionary benefits), as this would make them unconditional in practice: once the initially calculated capital charge is met by means of a higher funding ratio, the capital charge will have grown as the value of the “conditional” benefit will be higher at a higher funding ratio. This leads to a spiral that will only stop once the maximum of the originally conditional benefit will be granted, making it implicitly unconditional. The capital requirement for conditional benefits would moreover imply a double charge for risk

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taking as both the resulting upward potential (higher option value, i.e. an higher market consistent value) and the downward risk (higher SCR) result in higher capital requirements. This is a clear disincentive to take risk, which is likely to be harmful for participants (lower returns leading to lower pensions and higher contributions) and runs counter to the objective of the European Commission to stimulate pension funds to finance long-term investments. Finally, as options (like conditional benefits, extra (conditional) sponsor support and benefit cuts) are less sensitive to volatility if they are far out of the money, risk taking is more opposed for rich funds than for poor ones.

Also, the combination of the HBS and an SCR is conceptually wrong. The HBS shows the current market value of all conditional and unconditional pension promises (assuming there is a complete market, which is not the case), and the way in which these promises are backed by current assets and conditional future payments (or benefit reductions). As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for an SCR on the HBS. This can be illustrated for a simple (complete) contract with a finite horizon where the participants will receive all revenues of the fund when it will close. If the stochastic simulations for the HBS are conducted over the full (finite) lifetime of the pension contract, the HBS will exactly balance. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option (indexation option) minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the contract, the conditional pension rights after the simulation horizon will not be valued, and consequently there will generally be a residual (positive or negative). This residual represents transfers to or from the generations that will still be in the fund after the simulation horizon. In the view of EIOPA, the pension fund only disposes of sufficient capital when this residual will exceed the SCR. This would then in practice mean that, irrespective of the starting financial situation of the fund, current members should always have to make transfers to future generations. This cannot be regarded as beneficial for the current participants. In addition the longer the simulation horizon, the smaller the value of the residual will be (as the transfers are discounted), and therefore the less likely that the HBS (including the SCR) will balance.

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Next to the fact that the HBS concept is inconsistent with the SCR, it is also inconsistent with a recovery plan. To calculate the HBS including all conditional and mixed benefits and all steering instruments requires to include all extra possible future funding like extra sponsor support and instruments like benefits cuts. If the HBS will not balance, there is no further recovery plan possible, since all steering instruments are already included in the HBS. The only conclusion one can draw is that the funding policy is insufficient to pay out the benefits as promised, thus that the pension deal seems to be unsustainable (at current market prices).

A third fundamental problem with the use of the HBS for capital requirements concerns the supervisory response. Given that the HBS can only be calculated assuming a complete contract (including an agreement beforehand on the sharing of surpluses and deficits between the different stakeholders and all recovery mechanisms), the outcome of the HBS is a take it or leave it deal. If the supervisor would not like the outcome, he might only suggest adjustments in the contract or the recovery mechanisms, – but it is up to the employer(s) and employee(s) to decide on the pension deal, not to the supervisor – but the resulting HBS-outcome will be highly unpredictable as all HBS-items are interrelated. Consequently, this approach is not suitable for prudential supervision.

In addition to these fundamental problems, the HBS also implies severe practical problems. Although the HBS, in theory, provides for an overview of all risks that have an impact on the ‘solvency’ of an IORP. However, the QIS1 (2012) has shown that in practice IORPs faced great difficulties in providing accurate numbers,. We doubt whether these difficulties can be overcome at all. This is due to the unavailability of necessary data (market prices for long horizons, standard deviations and correlations and missing markets (like the prices for wage inflation)), and the complexity of the methods to use (i.e. risk neutral valuation in the absence of closed form calculation methods). The complexity of the methods to use, makes the HBS very sensitive, possibly too sensitive for model and parameter assumptions, which can result in the valuation of HBS to change by tens of percentage points depending on the assumptions used. The simplifications that are being investigated may solve the problem of the complexity on the one hand, but will inevitably lead to overall inconsistencies on the other hand: any simplification will

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inevitably lead to the entire HBS to be no longer market consistent. And if simplification will lead to a different market value of balance sheet item, this different valuation will also impact the valuation of all the other balance sheet items.

2 Use as an instrument for risk management (in pillar 2)

The HBS might possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods would better achieve this goal.

A well drafted HBS can provide insights in the relative risks for different stakeholders. It is important to note however, that this does not provide insights into the main goals of an IORP, which are for example the capacity to pay the current benefits or the capacity to compensate for inflation. It only gives the current valuation of the future cash flows against market prices (assuming there is a market, which is not the case) of conditional and unconditional pension benefits and the way these promises are financed. It will therefore never be possible to use the HBS as the sole instrument for risk management, but other instruments will always be needed. Other instruments can for example consist of some sort of solvency projection (continuity analysis), ALM calculations and stress tests. If such instruments are available, we think that there is little additional added value of also using the HBS, especially given the complexity of the information that the HBS provides.

3 Use as a tool for transparency (in pillar 3)

The HBS cannot be used for transparency purposes. The information provided by the HBS is not the information that scheme members need or expect. A participant wants to learn about the risks facing his pension benefits, for example the probability that his benefits will be lowered or not adjusted to inflation, and what the magnitude of these events could be. The option values that are shown on the HBS do not provide this information, as they are not a forward looking, and only a relative ranking of risks. The fact that an indexation option (the market value of conditional indexation) currently has a value of for example 5, does not convey any information about the probability that the pensions will be indexed. It only provides the current market price of the option. As the participant cannot trade this option, this value is hardly informative. Technically,

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	<p>the option values provide information about the value of the optionality in a risk neutral world, but this is not the world in which participants live. Moreover, as market conditions may change quickly, the option value may be very volatile. We therefore conclude that use of the HBS in Pillar 3 is neither desirable nor feasible.</p> <p>If specific elements of the HBS will be implemented as balancing items, we want to stress that it is still important to properly convey all the relevant information. As an example, if a specific form of sponsor support would be used as a balancing item but the coverage is not 100%, any remaining risk to the participants or the IORP should still be reflected elsewhere on the HBS.</p> <p>Last but not least, we would like to remind that our answers to the technical questions depend on the implementation of a prudential framework that is not clear as of yet.</p>	
Q1	<p>No, AEIP believes that the word contract is not an adequate description of the characteristics of the set of rules and arrangements governing the provision of benefits to members and beneficiaries.</p> <p>Moreover, there might be more than one agreement or single document regulating the whole pension promise and management. As such, we do not believe the word “contract” is appropriate.</p>	
Q2	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, the word “boundary” might be considered as appropriate, even though it should be completed by mentioning the triangular relationship among the employee, the employer and the</p>	

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	institution.	
Q3	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would propose “scope of the agreement(s)” instead of contract boundaries.</p>	
Q4	<p>AEIP believes that this section does not fully recognize the triangular relationship among the employee, the employer and the institution. Indeed, we find that it rather considers two actors (as in commercial law).</p> <p>The term “contract boundaries” and the definition are not adequate for IORPs. The scope of the agreement should be different depending on whether the purpose of the HBS exercise is an application for capital requirements or as a risk management tool. For an application in capital requirements, the scope should be limited to unconditional elements of the agreement, for an application as risk management tool, a wider scope could be considered.</p>	
Q5	<p>This seems to be a case that particularly fits one country. For instance, in the Netherlands IORPs do have the unilateral right to terminate the contract. For capital requirements we suggest that the “scope of agreement” should take into account only benefits accrued to date. Future in- and outgoing cash flows can be taken into account in a risk management tool of a “holistic framework”.</p>	
Q6	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme</i></p>	

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	<p><i>members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, even though it should be pointed out that in some countries, such as in the Netherlands, the accrual of benefits is not conditional on the premiums being paid. It is the other way around: benefits are accrued, which should subsequently be serviced by premium payments. Thus, not the contribution payments are recognized in the technical provisions, but the new entitlements in the technical provisions. The corresponding contribution cashflows are added to the unconditional financial assets of the IORP.</p> <p>In addition, not all benefits “build up due to the continued service of the member”. For example, liabilities can arise from the single event of a person becoming a member of an IORP (e.g. if, immediately on joining, a member is entitled to a lump sum or to a dependant’s pension should they die while being a member, and the formula determining this lump sum or pension is independent of the member’s length of membership).</p>	
Q7	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, even though this distinction might be too simplistic.</p> <p>For capital requirements we suggest that the “scope of agreement” should only take into account benefits accrued to date. Future in- and outgoing cash flows can be taken into account in a risk</p>	

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management tool of the “holistic framework”. This concept could take into account all steering- and adjustment mechanisms of a pension fund, but not necessarily in the form of a (holistic) balance sheet. Contributions that fully reflect new risks could be excluded from the “scope of agreement” of the “holistic framework”. If contributions are not sufficient or too high to cover newly accrued benefits, this could be labelled as ‘sponsor support’ (negative or positive) and could be separately placed in the holistic framework.

Regarding the practicality of such a distinction, we have several questions. The definition of ‘fully reflect new risks’ still needs to be clarified. In the holistic framework the horizon should not be infinite for practicality reasons, and the increasing uncertainty at longer horizons. In addition, distinction between “regular contributions” and “sponsor support” can be complex and may not be material: for example if the contributions are fixed for a few years, but based on an estimation that they will fully reflect the risks, and by time the estimate and realization start to differ slightly. The question is whether the probability will be taken into account that the contributions are not paid by the sponsor. Furthermore it has to be clarified how to estimate these probabilities? One could also think about the case that if the sponsor is not able to pay the contributions anymore, the business will close and therefore there will be no new benefits.

Q8

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

Yes, even though this distinction might be too simplistic.
For capital requirements we suggest that the “scope of agreement” should only take into account benefits accrued to date. Future in- and outgoing cash flows can be taken into account in a risk management tool of the “holistic framework”. This concept could take into account all steering-

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Regarding the practicality of such a distinction, we have several questions. The definition of ‘fully reflect new risks’ still needs to be clarified. In the holistic framework the horizon should not be infinite for practicality reasons, and the increasing uncertainty at longer horizons. In addition, distinction between “regular contributions” and “sponsor support” can be complex and may not be material: for example if the contributions are fixed for a few years, but based on an estimation that they will fully reflect the risks, and by time the estimate and realization start to differ slightly. The question is whether the probability will be taken into account that the contributions are not paid by the sponsor. Furthermore it has to be clarified how to estimate these probabilities? One could also think about the case that if the sponsor is not able to pay the contributions anymore, the business will close and therefore there will be no new benefits.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

This seems to be a very rare case, which might only be possible in few Member States. In principle, AEIP believes that such payments by the IORPs to the sponsor related to a surplus of the IORP should be recognised in the sponsor support element of the “holistic framework”.

Indeed, we agree that payments by the IORP to the sponsor related to a surplus of the IORP can

Q9

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	never result in a decrease of the technical provisions.	
Q10	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, this is possible.</p> <p>For example, in the Netherlands, in industry-wide pension schemes it is possible that a new company to be included in the scheme is not included immediately (because both the IORP and the company are not immediately aware of each other), in which case no contributions are paid. Employees of the new company still do build up entitlements in the meantime.</p>	
Q11	The question is not clear, as the wording “contract boundaries” has not been clearly defined in the text of the consultation. Responding to this question is not possible at this moment.	
Q12	No.	
Q13	<p>For capital requirement purposes, the scope of the agreement should be limited to unconditional benefits accrued to date.</p> <p>For risk management purposes, non-unconditional benefits can be included. Note that for example, in some countries, indexation can be conditional, even if contributions to finance indexation are made. If the purpose is to apply the HBS as a risk management tool, the conditional indexation should not be part of the technical provisions but the means for this indexation should be identified on the HBS separately.</p>	

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Q14	The wording “contract boundaries” has not been clearly defined in the text of the consultation.	
Q15	This depends on whether the scope of the agreement is defined for a capital requirement or an application as risk management tool.	
Q16	It should be noted that the definition of “risk building up in the IORP” is not applicable to all countries. For instance this is not applicable to Belgian IORPs, as they only have a best effort engagement, while all risks stay with the sponsor.	
Q17	<p>AEIP believes that the wording is not appropriate, as it does not mention the triangular relationship among the employee, the employer and the institution, as well as the role of social partners.</p> <p>For capital requirement purposes, the scope of the agreement should be limited to unconditional benefits accrued to date. For risk management purposes, other cashflows can be included in the definition of the scope of the agreement.</p>	
Q18	<p>AEIP does not see any major advantage in the definitions suggested.</p> <p>However, both a and b should be included, as situations could arise where the agreement is not terminated, but no more new benefits are accrued.</p>	
Q19	<p>AEIP believes that this definition does not fully recognize the triangular relationship among the employee, the employer and the institution.</p> <p>AEIP believes that it is not fully relevant to know who has the right or the unilateral right to change the contract/agreement/pension promise (the IORP, the sponsor, the social partners, ...). It should rather be important to focus on whether the contract/agreement/pension promise can be ended or amended. If that is the case, whatever the procedure is to do so, future benefit</p>	

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	accruals/contributions should not be considered for the technical provisions.	
Q20	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes. In definition b this is not obvious, and also should not be the case. Technical provisions should be based on benefit obligations only in case these are established independently from the contributions paid.</p>	
Q21	<p>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</p> <p>Yes, it is possible (and happens regularly) that the agreement is not terminated, but no more new benefits are accrued.</p>	
Q22	The question is not clear, as the wording “contract boundaries” has not been clearly defined in the text of the consultation. Moreover, any proposed definition should fully recognize the triangular relationship among the employee, the employer and the institution.	

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	For capital requirement purposes, the scope of the agreement should be limited to unconditional benefits accrued to date only. For risk management purposes, other cash flows can be included.	
Q23	<p>The wording “contract boundaries” has not been clearly defined in the text of the consultation.</p> <p>AEIP believes that it is not fully relevant to know who has the right or the unilateral right to change the contract/agreement/pension promise (the IORP, the sponsor, the social partners, ...). It should rather be important to focus on whether the contract/agreement/pension promise can be ended or amended. If that is the case, whatever the procedure is to do so, future benefit accruals/contributions should not be considered for the technical provisions.</p>	
Q24	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes. AEIP believes that these definitions are workable. However, in practice it may still be difficult to categorize existing practices as they may contain elements of more than one class of the identified decision-making mechanisms.</p>	
Q25	No.	
Q26	Quantifying the relation between the funding position of the IORP and elements of discretionary decisions-making is a complex exercise. This is only feasible when running stochastic evaluation. However, it should be recognised that the large majority of IORPs (especially the small and medium ones) does not have sufficient resources to run such an evaluation.	

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Q27	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that IORPs need to produce a best estimate of expected future payments, if pure discretionary benefits were to be recognised in a holistic balance sheet. But from a principal point of view we are of the opinion that pure discretionary benefits should not be recognised in the holistic balance sheet. In this respect we furthermore refer to the opinion on such benefits as expressed by EIOPA in paragraph 5.56 of this consultation document and our answer on Question 78.</p>	
Q28	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that, if mixed benefits were to be recognised in a holistic balance sheet, IORPs need to produce a best estimate of expected future payments, but we foresee that this will be very difficult or even impossible for small and medium sized IORPs. In this respect we also refer to our answer on Question 79 in this consultation document.</p>	
Q29	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme</i></p>	

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Q30	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that these Options 1 and 2 are the two options for valuing off-balance capital instruments.</p>	
Q31	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>It depends on whether the given IORP will run stochastic valuations, such as it is usually done in</p>	

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	<p>The Netherlands. In such a case, option 2 would be preferable. For all other cases, Option 1 seems to be more feasible.</p>	
Q32	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that surplus funds should be valued for their nominal value.</p>	
Q33	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that the Options 1, 2 and 3 are the options for valuing subordinated loans.</p>	
Q34	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p>	

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Options 1 seems to be the preferable option, due to its simplicity.

However, Option 3 should be kept as well, because this option has as starting point that subordinated loans are in practice typically repaid when they are (due to the funding position of the IORP) not needed anymore to cover the liabilities and capital requirements of this IORP.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

Yes.

In a holistic balance sheet that includes other options, we prefer the direct approach. Using the balancing item approach in a HBS that includes other conditionalities will result in mispricing of these other options, since the underlying projections will not be correct as benefit reductions that should be included in the underlying cash flows are left out.

If using a simplified method such as the balancing item approach, one should use a simplified method for valuing all the other options as well to prevent mispricing from occurring. See also our answer to Q.72 for further thoughts on the HBS in general and the inclusion of the SCR specifically.

All kinds of benefit reduction mechanisms should be treated as a last resort item at any time. This is especially true for the benefit reduction mechanism if unlimited: this mechanism guarantees the IORP's sustainability and should always be valued as balancing item.

We would not restrict the recognition of a benefit reduction mechanism to cases of unlimited

Q35

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reductions. Applying a direct or a balancing item approach should be determined by the kind of benefit reduction available. If contract/bylaws or national law and other regulations allow for a benefit reduction but restrict that to a certain amount this mechanism should be recognized directly up to its legal or regulatory limits. There is no need to use probability calculations or past policies.

Unlimited benefit reduction mechanism should be the ultimate balancing item within the HBS.

We find it artificial and do not agree with the approach of valuing all other items of a holistic balance sheet before recognizing existing benefit reduction mechanisms because this is an unnecessary and costly exercise.

Within the HBS it should be possible to select one or the other possible balancing item without valuing others that might be available too. The first – and easiest accessible resp. “measurable” mechanism qualified as balancing item should end the valuation process. Example: legally enforceable sponsor support is qualified as balancing item as well as legally enforceable and unlimited ex-ante benefit reduction mechanism. The institution chooses to demonstrate that the benefit reduction mechanism works as balancing item. HBS should then be complete without valuing the sponsor support available.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

We agree that the details of the market consistent calculation of sponsor support should be left to member states and IORPs to implement as appropriate and as specific as possible with regard to their own circumstances.

Q36

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<p>Q37</p>	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>In principle, we agree that the overarching principle of the valuation of sponsor support should be market consistent. However, there is no such market for valuating the adjustment mechanisms of IORPs, making the exercise of valuating them rather artificial.</p> <p>AEIP finds the “M” element valuation workable, no matter whether it is considered as fully market consistent or not.</p>	
<p>Q38</p>	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP reminds that in some countries (the Netherlands) market consistent valuation is already in use. However, AEIP also affirms that there is no such market for valuating the adjustment mechanisms of IORPs, making the exercise of valuating them rather artificial.</p> <p>Moreover, we stress that it is difficult to get a good view on the credit risk of the sponsor in case the sponsor is not rated. Apart from that, the enforcement of the sponsor commitment may also depend on the reported strength of the sponsor. Likewise it is not clear what principle should be used for the allowance for credit risk and affordability in case of multi employers IORPs and multi</p>	

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	<p>IORP sponsors.</p> <p>AEIP finds the “M” element valuation workable, no matter whether it is considered as fully market consistent or not.</p>	
Q39	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We support the balancing item approach under the conditions described in Q40.</p>	
Q40	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>In order to use sponsor support as balancing item, most of the approaches provided for by EIOPA could be regarded as way too complicated. There should be further work to find easier ways. Only the “M” approach, especially if combined with the wage sum, seems to be an easy enough approach for small and medium sized IORPs to demonstrate sponsor support’s value.</p>	
Q41	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme</i></p>	

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	<p><i>members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, for instance in case of industry wide fund, where the sponsor support could be calculated through the “M” approach.</p>	
Q42	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP believes that a value of 2 might be sufficient, even though discretion should be left to industry-wide pension funds in adapting the value of M to the specificities of the sector they operate for. This should be further investigated.</p>	
Q43	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.</i></p> <p><i>AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes.</p>	

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Q44	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP believes that a pension protection scheme should generally be used as a balancing item, even though the second proposed option should be available too.</p> <p>Indeed, we believe that the details of the calculation of PPS should be left to member states and IORPs to implement as appropriate and as specific as possible with regard to their own circumstances.</p>	
Q45	<p>No, as long as the PPS is strong enough to guarantee 100% (or close to 100%) of the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefit reductions is the balancing item.</p> <p>AEIP believes that the current requirements, as regulated under the Directive EC/2003/41 (IORP directive) are adequate and should not be amended.</p>	
Q46	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p>	

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	<p>AEIP supports the principles-based IORP specific valuation of the support. The specificities of calculating the sponsor support should be left to the discretion of the member states and of IORPs providing them with the possibility to implement it appropriately and according to their own circumstances. A rules-based valuation would be too complex for incorporating all specificities of all IORPs in the EU and would require the competent authority or EIOPA having to prescribe a risk-neutral valuation set including assumptions for the modelling of options (like one or two parameter Hull-White model) and parameters and information on incomplete markets (like market prices for long horizons, standard deviations and correlations and missing markets (e.g. the prices for wage inflation).</p>	
Q47	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP believes that sponsor support valuation should be detailed at national level. As such, we believe that further guidance should be given by national supervisors. See for instance Q36 and Q46.</p> <p>Regarding the areas where more guidance would be needed at national level, we would welcome more guidance on the allowance for credit risk in the calculation of sponsor support under the stochastic modelling approach. In addition, it is not clear what principle should be used for the allowance of credit risk and affordability in case of multi employers IORPs and multi IORPs sponsors.</p>	
Q48	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme</i></p>	

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members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used.

AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

AEIP asserts that the choice of running valuation by using stochastic models should be left to the discretion of Member States.

If some of the MS decide to establish or already are using stochastic models, we would welcome more guidance on the calculation of the maximum sponsor support under the stochastic modelling approach.

The major issues with regard to this approach are:

1. The projection horizon
2. The application of a UFR
3. Unobservable parameters (like (wage) inflation, volatilities and correlations)
4. Model/parameter sensitivity

The value of the steering mechanisms depends substantially on the evaluation horizon chosen in the valuation. Some Dutch IORPs participating in the IORP QIS 1 that used a risk neutral valuation used a projection horizon of 100 years, whereas others used a horizon equal to the duration of the liabilities. This results in a situation in which the HBSs for the different IORPs are not comparable, as IORPs automatically raise the absorption of shocks on the HBS by increasing the projection horizon.

In general, we agree with the use of the UFR approach, while noting that its application conflicts with the principles of pure market consistent valuation. As the value of the embedded options in a pension contract cannot be derived from market prices, risk neutral scenarios need to be determined based on a risk free nominal interest rate curve. This curve can be observed in the financial markets, but does not include any UFR. By overwriting market prices by applying an UFR

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approach, one changes for instance the value of nominal liabilities. Another issue with the UFR is that it is impossible to calculate the impact of interest rate shocks properly.

For some economic variables that are used in the valuation of the HBS there is no market information available or the financial markets are not liquid enough to provide reliable prices. For these variables, such as (wage) inflation, volatilities and correlations, IORPs need to set an assumption, which leads to possible differences in the valuation of the HBS between IORPs.

But even if all market information is available, IORPs can select from a wide range of risk neutral valuation models. Some financial institutions define tailored models to price a very specific derivative. This can be illustrated by the fact that the models that banks use for pricing interest rate caps differ from the models for pricing swaptions, whereas both derivatives are subject to the same interest rate risk. Tailored models make calibration easier and are therefore believed to make pricing more accurate. When the payoffs of a claim depend on several economic variables such as interest rates, inflation and equity returns, these variables need to be incorporated. One then arrives at more broadly defined models. In this case more model risk is present when valuation is done for products that are dissimilar to the ones that have been used for calibration.

Apart from these issues the use of the stochastic modelling approach should be encouraged by the implication that in this approach the capital requirements are lower in comparison to using simplified methods. This may not always be the case.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

Q49

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	<p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p>	
Q50	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p> <p>The QIS simplification 1 might be used by IORPs that do not use other steering mechanisms than additional sponsor support in case of underfunding. EIOPA might make this method more accessible by providing more guidance on how to derive the probability of default and maximum sponsor support, as some stakeholders provided EIOPA with the feedback that they were not able to derive these assumptions that are input for this simplification.</p>	
Q51	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor</p>	

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	<p>support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p>	
Q52	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p>	
Q53	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p> <p>From the consultation paper we understand that the simplified B&H model does take future shortfalls into account (see 4.245). This model is not line with the overarching principle that market consistent valuation methods.</p>	

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Q54	No.	
Q55	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>AEIP proposes to retain all the simplifications used in the first QIS. AEIP reminds that sponsor support valuation should be principles-based and be further detailed at national level (see Q36 and Q46).</p>	
Q56	No.	
Q57	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes.</p>	
Q58	No, we believe that the specifics of the calculation of the maximum sponsor support should be left to the discretion of the member states and to IORPs in order to implement it as appropriately and as specifically as possible according to their own circumstances.	

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Q59	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes, especially in case of multi employer IORPs and multi IORP sponsor. We would welcome more principle based guidance for these cases. For multi employer IORPs with a large number of employers historic default rates can be used.</p>	
Q60	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We support a pragmatic approach that can be used by all IORPs. Therefore we favor the approach in which the credit risk of the sponsor can be based on historical data of different types of sponsors such as the PPF assessment. The enforcement of the sponsor commitment may also depend on the reported strength of the sponsor. If historic data of the peers of this sponsor are used, the enforcement of the commitment would be easier.</p>	
Q61	<p>We do not agree with this approach, as this paragraph considers only the current situation of underfunding as a base for the valuation of sponsor support. AEIP believes that that there should be no limitation as for the timing of the sponsor support.</p>	

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Q62	<p>Unfortunately the consultation paper does not provide any convincing methods to handle these multi-situations.</p> <p>Under the assumption that the investment behaviour of the IORPs within the multi IORP sponsor is almost the same, the situation of underfunding for these IORPs is highly correlated. Therefore the apportioning of the maximum sponsor seems to be appropriate. On the other hand there are cases where sponsors chose to use different IORPs due to their different investment possibilities (e.g. Pensionskassen vs. Pensionfonds in Germany). In these cases the IORPs are correlated. This paragraph only addresses the implications of the multi IORP sponsor in case of the application of simplified methods. We would welcome more principle based guidance for the stochastic modelling approach to be prepared for cases in which MS decide to allow for stochastic modelling.</p>	
Q63	No.	
Q64	<p>The credit of the sponsors of the multi sponsor IORP cannot be assessed by averaging the credit risk of the individual sponsor. Moreover, the availability of the necessary financial data varies across different industries. For instance, in case of an industry populated by tens of thousands SMEs, a sample made of the five largest sponsors does not provide for meaningful inputs over the strength of sponsor support for industry-wide IORPs.</p> <p>After all there is a possible solution for industry wide schemes that use the wage sum for calculating contributions by using the total wage sum of the sponsors to assess the sponsor support. Necessary future payments of the industry to the IORP to close any funding or SCR gaps should be calculated as a percentage of the total wage sum. If this percentage is reasonably small, sponsor support should be treated as balancing item. "Reasonably small" may be regarded as a M of 2 as proposed by PwC and EIOPA within the consultation document.</p>	
Q65	<p>The credit of the sponsors of the multi sponsor IORP cannot be assessed by averaging the credit risk of the individual sponsor. Moreover, the availability of the necessary financial data varies across different industries. For instance, in case of an industry populated by tens of thousands SMEs, a sample made of the five largest sponsors does not provide for meaningful inputs over the</p>	

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	<p>strength of sponsor support for industry-wide IORPs. After all there is a possible solution for industry wide schemes that use the wage sum for calculating contributions by using the total wage sum of the sponsors to assess the sponsor support. Necessary future payments of the industry to the IORP to close any funding or SCR gaps should be calculated as a percentage of the total wage sum. If this percentage is reasonably small, sponsor support should be treated as balancing item. “Reasonably small” may be regarded as a M of 2 as proposed by PwC and EIOPA within the consultation document.</p> <p>AEIP would also like to hint at the special situation of industry wide funds concerning possible (legally or non-legally enforceable) “last man standing” principles. If it can be proven by former occurrences that the collective funding of the scheme has been applied in the past the simplification of collective liabilities that are subject to industry-wide financing should be possible.</p>	
Q66	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree to take all guarantees into account when valuing the sponsor support.</p>	
Q67	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p>	

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	<p>We stress that for not-for-profit organisations it is even more complicated to assess the financial strength. We would welcome more guidance. A method such as the PPF assessment may be of use of these IORPs. In our opinion it is better to base the default rate on historic data or apply the “M” concept using the wage sum as well.</p>	
<p>Q68</p>	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We stress that for not-for-profit organisations it is even more complicated to assess the financial strength. We would welcome more guidance. A method such as the PPF assessment may be of use of these IORPs. In our opinion it is better to base the default rate on historic data or apply the “M” concept using the wage sum as well.</p>	
<p>Q69</p>	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree with the approach to consider the PPS as balancing item in the HBS, under the condition that the PPS guarantees (close to) 100% of the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefit reductions is the balancing</p>	

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	<p>item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.</p>	
Q70	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree with the approach to consider the PPS as balancing item in the HBS, under the condition that the PPS guarantees (close to) 100% of the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefit reductions is the balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.</p> <p>Indeed, from a methodological point of view, it is best to value a pension protection scheme separately using a full valuation, such as the full Barrie & Hibbert method. However, in the light of simplicity and feasibility, allowing the presence of a pension protection scheme to reduce the sponsor default rates to 0% seems a practical solution. It is important however that in this case, the pension protection scheme guarantees (almost) all liabilities of an IORP. In case less than 100% of the liabilities are guaranteed by the pension protection scheme, a combination of the PPS and benefit reductions is the balancing item. If this route is chosen, we invite EIOPA to further suggest how to allow for a combination of the PPS and benefit reduction as a balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.</p>	
Q71	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited</i></p>	

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value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

We agree with the approach to consider the PPS as balancing item in the HBS, under the condition that the PPS guarantees (close to) 100% of the benefits. If the PPS does not guarantee full benefits, then the combination of the PPS and the necessary benefit reductions is the balancing item. The use of a balancing item approach in case of a PPS should be justified properly and in a transparent manner.

AEIP does not see a need to amend the capital requirements established by the IORP I directive. Indeed, the Holistic Balance Sheet and the SCR should not be implemented for Pillar 1.

As argued in the general remarks, the use of the HBS for capital requirements is conceptually wrong for at least three fundamental reasons. First, requiring capital for conditional benefits will make them unconditional in practice as extra capital increases their value. This is a clear disincentive to take risk or to offer conditional benefits, especially for relatively rich funds. Second, an SCR has no place on the HBS as all benefits and financing methods are included in the HBS. Consequently, for a complete “contract” the HBS automatically balances, and a SCR would always imply a deficit on the EIOPA Balance Sheet ($EBS = HBS + \text{net SCR}$). Third, as all recovery mechanisms have to be included in order to be able to calculate the HBS, any supervisory response cannot improve the HBS; there is no further recovery possible as the recovery plan is already included in the HBS. Apart from these fundamental problems the HBS is far too complex and subjective to be able to develop into a cost efficient and informative supervisory tool.

As argued in the general remarks, the HBS might potentially add value as an instrument for risk management, but other and less costly methods (real world as opposed to risk-neutral simulations) would better achieve this goal.

Q72

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As argued in the general remarks, the HBS is not suited as an instrument for transparency towards scheme members as the current estimated market price of an option is not informative for them. The option cannot be traded, its price is highly volatile, and its value gives no clear information on the likelihood or size of, for instance, indexation, as option values are determined in the risk-neutral world whereas participants are only interested in the real world as they live in this world.

As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for capital charges on the HBS. This is easiest explained for a simple contract with a finite horizon where the participants get all revenues of the fund when it is closed. If the stochastic simulations for the HBS are conducted over the full lifetime of the contract, the HBS exactly balances. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the contract there generally is a residual. This residual represents transfers to or from the generations that are still in the fund after the simulation horizon. The EIOPA Balance Sheet ($EBS = HBS + \text{net SCR}$) can only be positive if the net SCR is smaller than the residual. This means that irrespective of the starting financial situation, current members should always make a transfer to future generations. This cannot be regarded as in the benefit of the participants. The longer the simulation horizon, the smaller the value of the residual (as the transfers are discounted), and therefore the less likely the EBS will balance.

Prudential supervision should focus on unconditional promises. In Solvency II, the mistake was made to also require capital for conditional promises, even if these promises are conditional on the future financial health of the insurance company (profit sharing). Consequently, there is a double charge for risk taking under Solvency II. First, more risk increases downside risk and therefore a higher SCR is required. Second, more risk also increases upward potential and thereby the profit sharing option. Where the first requirement makes perfect sense, the second does not. Either a company makes a profit and so will have the money to share a part of it, or there is no profit and in that case also no promise to pay anything. For insurance companies this mistake might be circumvented by formulating contracts in such a way that this may be discarded (contract boundaries), or by simply not promising profit sharing any more. For pension funds (for

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instance in the Netherlands) the mistake is more binding however as conditional indexation is an important aspect of the pension agreement. Even if a pension fund has a strong sponsor who is willing to finance a deficit due to the value of the indexation option, the Solvency II balance sheet will not work as it is dynamically inconsistent as extra contributions of the sponsor will increase the indexation option. This process can continue up until indexation is almost fully guaranteed, but this is clearly at odds with the agreed conditionality of the indexation. In the EBS, one tries to correct this conceptual mistake by adding compensating options that are available to pension funds to finance future deficits, namely benefit reductions and sponsor support. In general, it is rarely a good idea to compensate mistakes by compensating mistakes. Here it is not different. With respect to benefit reductions, it is doubtful whether a supervisor (who should protect pensions of current and future participants) should disregard pension promises simply because these promises are no longer likely to be met. Moreover, as options are less sensitive to changes in volatility if they are far out of the money, the relative attractiveness of risk taking as a function of the financial health of the fund is contrary to the desired situation from a supervisory point of view. If the fund is highly underfunded, the indexation option is far out of the money and extra risk taking will hardly affect this value. The benefit reduction option on the other hand will increase with risk taking as this option is more in the money. For a fund with a large surplus, it is the other way around. Consequently, risk taking is less attractive for a rich fund than for a poor one. Again, this seems contrary to a good policy for consumer protection. To conclude, the best solution to circumvent the mistake of Solvency II is not to enlarge the balance sheet, but to shrink it to just the unconditional promises.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

Q73

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	<p>The HBS could possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods like ALM, continuity analysis and stress tests would better achieve this goal. In theory, the HBS could shed some light on the relative importance of the different recovery mechanisms of pension funds. One of the preconditions for this theory is however that the market is complete, which is clearly not (and never will be) the case. Moreover, the calculation of these options is far from trivial, and therefore costly. This consultation document offers numerous simplifications to calculate a HBS. The result of these calculations is just a balance sheet without any logical economic interpretation as the interaction between balance sheet items is lost and because the assumed option prices disregard the price of risk (the expected payout on an insurance policy is not equal to the premium) and simplifications of one balance sheet item will also impact the valuation of other balance sheet items.</p> <p>Another issue is that the HBS will only give the current valuation but no projections.</p>	
Q74	<p>No. Even apart from the incompleteness of the market, the HBS is way too complex to communicate. A participant would like to know to what extent his/her pension is likely to keep up with inflation. Even an expert will have no idea how to interpret an indexation option of say 25% of unconditional liabilities. Equally uninformative is the knowledge that the benefit cut option (if any) is worth 5% of liabilities. As options are priced in the risk-neutral world (in which we do not live) such a number is hardly indicative of the probability or size of future benefit cuts. For a member, in order to get an idea of the perspective and risks of his/her future pension, one should simulate with real world scenario's. The HBS does not do that. It only tells us how much we should be able to get at the market for our pension deal or how much we should pay to get rid of a pension promise if there should be a market (which is not the case). These number will moreover depend highly on the specific day the balance sheet is calculated as all prices are calibrated to the market prices of one particular date.</p>	
Q75	<p>No. Using the concept of the HBS for risk management requires the inclusion of all steering and adjustment instruments. In case the HBS funding ratio would then be too low, there are no further instruments available for recovery. In this case the recovery plan cannot be set up; it is</p>	

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already included in the HBS through steering and adjustment instruments available to the IORP. The only signal the HBS can give is that the pension deal is possibly not sustainable (given current market prices). Apart from that, there also are practical problems with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, any supervisory response cannot improve the HBS; there is no further recovery possible as the recovery plan is already included in the HBS. Apart from these fundamental problems the HBS is far too complex and subjective to be able to develop into a cost efficient and informative supervisory tool. To conclude, the HBS might potentially add value as an instrument for risk management, but less complex methods (real world as opposed to risk-neutral simulations) would better achieve this goal. Simplifying methods to calculate the HBS or omitting certain elements on the HBS result in combinations of market-consistent and simplified prices, which deprive the HBS from its final use.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

The existence of some form of non-legally enforceable sponsor support will contribute to the safety of the pension promise. Therefore one could be in favour of the option to include the non-legally enforceable sponsor support in the HBS. However, individual IORPs are best suited to decide if and how to include this.

We support the recognition of non-legally enforceable sponsor support because this is the only way to give a complete picture of reality within the conceptual framework. The local supervisor should then assess the method used and the viability of the assumptions and resulting outcome.

Q76

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Q77	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>The existence of a pension protection scheme (PPS) will also contribute to the safety of the pension promise. Therefore the value of the PPS should be included on the HBS. However, in the case of the inclusion of the PPS, MS have to monitor the financial strength of these PPSs. This has to be done on a macro scale, otherwise the systematic risk of such schemes are not taken into account in the value.</p>	
Q78	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>As mentioned above, we see no role for the HBS in pillar one. If it were to be used in pillar one, we agree that pure discretionary benefits should not be included on an IORP's capital requirement balance sheet (but as mentioned above, we see no role for the HBS for setting capital requirements).</p>	
Q79	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited</i></p>	

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	<p><i>value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We support Option 2, because in the case of mixed benefits there is, similar to the case of pure discretionary benefits, no contractual obligation to provide these benefits.</p>	
Q80	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Option 3 seems most sensible. The HBS is consistent only when all options are included on the balance sheet, which means that all types of benefit reductions should be included. In addition, in practice there is no rationale for making a distinction between ex ante and ex post reductions.</p> <p>In relation to paragraph 5.65 we would like to comment that, although the view given by EIOPA may be economically valid, the legal perspective is different, i.e. granting discretionary benefits in addition to hard benefits is legally different from cutting benefits, resulting in benefit payments below the original hard benefits.</p>	
Q81	No.	
Q82	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited</i></p>	

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	<p><i>value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that off-balance sheet capital instruments should be eligible to cover the SCR.</p>	
Q83	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that surplus funds should be recognised on an IORP's balance sheet and could be used to cover capital requirements.</p>	
Q84	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We agree that subordinated loans should be recognised on an IORPs balance sheet and could be used to cover capital requirements.</p>	

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Q85	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would be in favour of level B. This would be consistent with the current approach in the IORP-Directive and in line with the practice in many member states.</p>	
Q86	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would think that this should apply to all IORPs.</p>	
Q87	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We are in favour of level B. Consistent with the current approach in the IORP Directive and in line</p>	

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	with the practice in many member states.	
Q88	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would think that this should apply to all IORP's. See answer on Q86.</p>	
Q89	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>Yes. This is currently established practice in many Member States and hence would tally in nicely with the present arrangements, without jeopardizing the national equilibrium in pension legislation, thus avoiding violation of the subsidiarity principle.</p>	
Q90	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our</i></p>	

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	<p><i>constructive input to the works of EIOPA.</i></p> <p>Recovery periods are integral parts of national pension systems. Since national pension systems are very different across member states, harmonizing recovery periods would disrupt one or more of these systems. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.</p>	
Q91	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>This is entirely dependent on the set-up of the pension system. It does not only depend on the nature of the pension entitlements (are these guarantee-like, ambitions, or not defined at all?) , but also on for example the governance structure, the participants included and other sources of pension provision, such as government pensions or private pensions. The length of the recovery period should be determined vis-à-vis the duration of the liabilities.</p>	
Q92	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>This is entirely dependent on the specific national set-up and should match the duration of the</p>	

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	liabilities, see the answer to Q91.	
Q93	No. We would like to note that we think that the SCR is not compatible with the HBS. Furthermore since recovery periods are integral parts of national pension systems there is no scope for harmonisation on EU level.	
Q94	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would like to note that we think that the SCR is not compatible with the HBS. But for the sake of the argument: since sponsor money is best invested in the sponsors' business the period should be extensive.</p>	
Q95	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We would like to note that we think that the SCR is not compatible with the HBS. The recovery period should match the duration of the liabilities too.</p>	

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Q96	No. We would like to note that we think that the SCR is not compatible with the HBS. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.	
Q97	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>The size of the impact depends crucially on the scope of the future supervisory framework. Since we regard a future European prudential framework that includes HBS as costly and therefore negatively impacting the level of benefits existing contractual agreements concerning future contributions and benefits may need to change. AEIP believes that changes in EU prudential regulation should not lead to adjustment in Social and Labour Law. With regard to existing pension benefits, the impact will depend on whether these benefits could be interpreted as acquired property rights. Those rights should remain unadjusted.</p>	
Q98	AEIP is against EU prudential regulation interfering with national Social and Labour Law.	
Q99	<p>This framework is not usable, since it contains some inconsistent elements . It includes an SCR, some options are left out of the balance sheet, thus causing inconsistencies in the valuation of the options on the HBS including inappropriate uniform recovery periods. In addition, this recovery period is very short, which does not do justice to the long-term nature of IORPs.</p> <p>We would like to note that we think that the SCR is not compatible with the HBS (see above). As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.</p>	

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Q100	<p>No. This framework is not usable, since it contains some inconsistent elements. It includes an SCR, some options are left out of the balance sheet, thus causing inconsistencies in the valuation of the options on the HBS including inappropriate uniform recovery periods.</p> <p>We would like to note that we think that the SCR is not compatible with the HBS (see above). As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.</p>	
Q101	<p>First, it is not clear to us how the level B technical provision could be combined with market-consistent valuation of the different options in the pension contract. Second, some options are excluded from the framework, causing mispricing in the included options. Third, including an SCR in a balance sheet that contains conditional items is not appropriate.</p> <p>Fourth, recovery plan requirements should be set at the Member State level. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.</p>	
Q102	<p>This is not possible. It is not clear to us how the level B technical provision could be combined with market-consistent valuation of the different options in the pension contract. Some options are missing. Including an SCR is not appropriate.</p> <p>Recovery plan requirements should be set at the Member State level. As all recovery mechanisms have to be included in order to be able to calculate the HBS, no further recovery plan can be developed.</p>	
Q103	<p>In example 3, the balance sheet intended for capital requirements (the pillar 1 balance sheet) is stated in the text to cover unconditional benefits and liabilities. In table 5.4, three HBS items elements are included: ex ante benefit reductions, legally enforceable sponsor support and PPS. Since some elements are left off the balance sheet, ex ante benefit reductions, sponsor support and the PPS will be mispriced. Therefore, the 'pillar 1' framework as presented is not usable in its current form.</p> <p>The HBS as a risk management tool includes future accrual of benefits and accompanying future contributions. Since it is not clear how these will develop, in addition they will require IORPs to</p>	

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	make a lot of additional assumptions about future development of these variables.	
Q104	<p>No, example 3 can not be used for all IORPs in the EU. In example 3, it is stated in the text that the balance sheet intended for capital requirements (the pillar 1 balance sheet) should only cover unconditional benefits and liabilities. However, in the description in table 5.4, three conditional elements are included: ex ante benefit reductions, legally enforceable sponsor support and PPS. Since some conditional elements are left off the balance sheet, ex ante benefit reductions, sponsor support and the PPS will be mispriced. Therefore, the 'pillar 1' framework as presented is not usable in its current form.</p> <p>In principle, the HBS could possibly be used as a risk management tool, but needs more thought and developing before it is ready to be implemented. One issue is the necessary assumptions (see answer to Q. 103). Another thing to keep in mind is that the market value of an option on the HBS is not linked one-on-one to the probability of the option being executed times the size of the event, but also depends on pricing characteristics such as volatility of the financial instruments the scenario set is calibrated on.</p>	
Q105	This framework is not usable, since it contains some inconsistent elements . It includes an SCR and we would like to note that the SCR is not compatible with the HBS .	
Q106	No. This framework is not usable, since it includes an SCR.	
Q107	<p>The pillar 1 framework presented in example 5 is not suitable for capital requirements, since it contains some inconsistent elements . Some options are left out of the balance sheet (sponsor support, ex post benefit reductions and, regarding the Dutch situation, conditional and mixed benefits), thus causing inconsistencies in valuation of the options that are on the HBS.</p> <p>If the proposed pillar 2 framework would include an SCR, this is not consistent with the methodology and it is illogical to put an SCR in pillar 2.</p>	

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Q108	<p>The pillar 1 framework presented in example 5 is not usable for capital requirements because it excludes some, but not all options from the balance sheet, thus causing mispricing in the remaining option, such as ex ante benefit reductions. The HBS is not usable as a risk management tool as laid down in example 5, as it includes an SCR. We would like to note that we think that the SCR is not compatible with the HBS.</p>	
Q109	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>The HBS could possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods such as ALM, continuity analysis and stress tests would better achieve this goal. However, we consider including an SCR in the specifications to be inconsistent and not useful within the HBS methodology.</p>	
Q110	<p><i>AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.</i></p> <p>We do not regard the Holistic Balance Sheet as a viable risk management tool. however, if the SCR component were to be left out, there is potential to use the example as a risk management tool on a EU-wide level. But since there are but less complex methods like ALM,</p>	

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continuity analysis and stress tests to implement the HBS would be against the interests of members and beneficiaries.

AEIP does not believe that the HBS might serve as an adequate tool for prudential supervision. It should neither be used for capital requirements nor as an information tool towards scheme members. If any concrete use for the HBS should be sought, the HBS could possibly have a limited value as a risk management tool. However, it is still too complex for small and medium sized IORPs, and there are less complex (and more efficient) methods that might be used. AEIP answered all questions of the consultation despite of these doubts, in order to provide our constructive input to the works of EIOPA.

For the use of simplifications in the QIS, these should be in line with the overarching principle that market consistent valuation methods should be used.

Using this overarching principle, the simplest possible approach to using the HBS in risk management environment is to delete all options, and just consider assets and unconditional liabilities. In case of strong sponsor support, a PPS guaranteeing (almost) all liabilities or benefit reduction mechanism the prove of these HBS items should be enough to substantiate long term sustainability without the need of additional calculations.

Q111