

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

Name of Company:	Belgian Association of Pension Institutions	
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 in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to DP-13-001@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
Reference	Comment	
General Comment	<p>The HBS approach is not suitable as prudential framework for IORPs. It is too much a copy paste of SII elements ignoring the specific characteristics of a IORP (not for profit, involvement of social partners, etc...).</p> <p>Prudential requirements for IORPs aimed to identify, measure and manage risks linked to a pension promise of the sponsor to his employees might have a broader impact once this prudential information on the IORP becomes publicly available and gets a reflection in the balance sheet of the sponsoring undertaking. Elements in the IORP's holistic balance sheet (SCR, risk free discount rate, VaR over 1 yr, ...) aimed to visualize risk all of a sudden get an interpretation as if they are an economic reality. Further investigation about interpretation of these elements should</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

be checked with other stakeholders such as auditors, investors, credit agencies, etc....

The elements like the sponsor support and the capital requirements might highly impact macro economics: mirroring the sponsor support in the sponsor's balance sheet can make employers more reluctant to offer a pension promise. Fearing the additional capital requirements, we expect sponsors to take a further shift from defined benefit plans to defined contribution plans and IORPs taking a shift from market to fixed income securities. The latter not only highly impacts occupational pension accrual in Europe, but also jeopardizes economic growth and development.

The holistic balance sheet assesses the solvency of the pension promise made by the employer to his employees but for Belgian IORPs it ignores the nature of the "best effort" commitment taken up by the IORP. As such we believe it is more a very complicated way to improve transparency of a pension promise made by a sponsor to its employees in the context of social labour law than a way to harmonise prudential legislation for IORPs in Europe. Alternatives to increase the transparency of a pension promise in the context of social labour law could be a common terminology and label for every pension promise indicating which stakeholder is taking which part of the different risks involved. We believe prudential legislation for IORPs should limit the affordability assessments to risks taken by the IORP.

The complexity of the HBS makes it unfeasible for smaller and medium sized IORPs which are the majority amongst IORPs in Europe. To allow for the differences across Europe, a harmonization of the prudential framework should be much more principle based but with more guidance on the criteria to meet. This can allow small and medium sized IORPs to align with the new requirements taking into account methodologies they can afford and understand to measure and manage their risks appropriately.

We welcome the further simplifications in the calculation of the sponsor support. The presentation of a reasonable alternative for the stochastic valuation, the simplification 1 and 2, and the proposal for the determination of the sponsor default probabilities are a big step forward. Nevertheless we notice that some main issues still remain. All situations different from a 1

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

(sponsor) – 1 (pension institution) – 1 (pension promise) stay very unclear and complex in terms of data (access and availability of information) and methodology (splitting numbers about assets, liabilities, income, shortfalls, etc... in very complex situations) (e.g. subsidiaries of multinationals, industry wide, etc...). How to apply this alternative (mainly the determination of the income/asset cover but also how react in situations of shortfalls (T-A, SCR), over-/underfunding in the context of:

- Industry-wide plans?
- Multi-employer plans?
- Local subsidiaries of multinational groups?
- Companies who transfer the profit to the mother company?
- Non profit organisations?
- Public authorities?
- Semi-Independent public agencies?

One of the goals of the HBS is to compare IORPs across Europe. Nevertheless, in the consultation note on sponsor support we identify some areas which introduce incomparability: a) local accounting rules impacting elements such income cover, asset cover, b) recoveries which are mainly determined by national legislation, c) different methods to value the sponsor support and the freedom to determine the assumptions, d) the periods of the additional payments to determine the sponsor support, as well as the sponsor support can be overruled/limited by national legislation and as such will impact the HBS, etc...

Unless very good tools are provided to simplify the iterative calculation process, the calculation of the loss absorbing capacity of the sponsor support to obtain the net SCR, although simplified, stays very burdensome.

The alternative approach brings a solution by introducing a credit rating like approach for non rated companies, but we still notice a link with credit ratings via the determination of the probabilities of default. As credit ratings are based on historical data, mainly based on US data,

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

dependant of the credit rating office used, are used to reflect the illiquidity instead of the insolvency, we question if they are really suitable to determine the probabilities of default in the context of this European IORP II regulation. We admit if we opt for a full valuation of sponsor support there is no much alternative to determine the probability of defaults. But don't we ignore the law of the large numbers by applying a probability of default on a single sponsor? What is the value of the outcome. Is it worth taking this route?

We suggest another alternative for the sponsor support: acting together with the pension protection scheme as the closing element of the HBS without any further numerical valuation/assessment. The IORP is best placed to value the pension liabilities and to show the risks associated with those. A IORP can play an important role in informing the different stakeholders involved. Given the different nature of the pension liabilities and the solvency capital requirements, the information preferably needs to be presented in different type of reports, as often needed to inform different type of stakeholders. The solvency capital requirements need to taken into account the specificities of the IORP: the not-for-profit characteristics, the long term liabilities, the risks taken by the IORP (and not those taken by other parties), etc...

The current risk based approach sounds noble, but ignores some important broader risks for occupation pension provision

- Costs for pensions will increase – what are social partners prepared to pay to reduce the IORP's insolvency risk?
- Despite the long term characteristics of the pension liabilities, the holistic balance sheet elements focus on short term elements due to the use of a risk free interest rate and a value at risk methodology over one year. This will increase volatility of the outcomes and as such enhance difficulties for the backing sponsors to plan investments and/or innovations. This will have a negative impact on economic development and growth.
- We already mentioned the holistic balance sheet approach will cause a shift to fixed income securities. If all IORP's investments will be similar, we fear a creation of systemic risk. On top IORPs as well as the financing sponsors/employees will no longer have access

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

to risk premiums which are typical for investing in the real economy. We can question if under such a scenario, we are not better off with pay as you go systems?

- The complexity enforces IORPs to consolidation → bigger IORPs might lead to a new risk: the concentration risk → and more difficulties to solve the problem in case of insolvency

Given these concerns, we can question if in this approach we did prioritize the risks correctly? In the current proposal we focus on financial risks only. We ignore the economic, the systemic and the concentration risks and maybe some others.

Do we know enough about which risks we can accept, reduce, share and which we should avoid— which risks can be taken by the sponsor, need to be re-insured, can be taken by the employee?

Did we question enough which risks the relevant stakeholders want to take and which not? And do we know what the impact is on the costs/benefits?

What is the value of ensuring adequate, safe and secure pensionsif they put the providence of occupational pensions under too much strain? Aren't we going too quick too far?

Q01.

Q1: Should IORPs be provided with additional guidance for conducting a stochastic valuation of sponsor support?

We believe it is important that no IORP is forced to do a stochastic approach. Often neither the knowledge nor the resources are available to take this complex approach. Therefore we believe it is important to offer more simplified alternatives.

On the other hand we need to ensure that the results of the different approaches stay comparable, if not it is difficult to contribute to a comparable HBS across Europe. Would stochastic as internal model also require a alternative method to allow for calibration and comparison?

Section 3.2 of this document does not state anything about probabilities of default. As such it is not clear from the document if the approach for the probabilities of default is changed towards the method as described under 3.5 of this document. Please confirm. We assume cash flows resulting from the gap between technical provisions and assets need to be adjusted with probabilities of default. Guidance on adjustment for sponsor support default is missing. The PD

Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
	<p>and LGD should be applied to the sponsor payments to make the valuation market-consistent.</p> <p>We assume the stochastic approach is concerning the economic assumptions to determine the market risk and not concerning the probability of default. Please confirm.</p> <p>We assume all 4 methods can be used (stochastic, deterministic simplification 1, deterministic simplification 2 and the alterenative. Please confirm</p>	
Q02.	<p>Q2: Should IORPs be provided with additional guidance for conducting valuations of sponsor support using either Simplification 1 or 2?</p> <p>The simplified approaches have some important limitations (e.g. 1: Normality test and 2: 0 duration. As both simplification methods have their limits, it is good to provide an alternative.</p> <p>Should either of these simplifications be removed or should any other simplification be developed?</p> <p>It is not clear if this question is asked in the context of a next QIS or in the context of new regulation. We believe it would be good if all methods remain (stochastic, simplification 1, simplification 2 and alternative).</p> <p>We do have many concerns about the applicability of the different methods in situations different from a 1-1-1 (sponsor -pension institution-promise) scenario. Futhermore we worry about the comparability of the HBS results across Europe as we notice the outcomes are highly dependent on the chosen method.</p>	
Q03.	<p>Q3: In the stakeholders' view what role should the concept of maximum sponsor support play in the general valuation principles for sponsor support?</p> <p>We believe maximum sponsor support only makes sense if the value is underpinned with a methodology and assumptions. A maximum sponsor support can be an indicator of a maximum risk for the sponsor.</p>	
Q04.	<p>Q4: Is wage an appropriate additional measure for estimating the maximum amount of sponsor support? If so, please explain why? Are there any other measures which could be used to assess the maximum sponsor support?</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

Wage could be an additional measure especially for the industry wide IORPs, where it might be the only feasible alternative.

An alternative would be to look at current funding method and express a tolerance for contribution increase and how it would fit into business plan. Some sensitivities on contribution rates would be welcome. If one year is bad, this does not mean that fund raising is not available in the future.

Q05.

Q5: Are stakeholders comfortable with the concept of linking default probabilities, credit ratios and sponsor strength?

We welcome this step towards a workable solution for small and medium sized IORPs. Getting access to the relevant data needs further investigation. More complex situations different from a 1-1-x situation(sponsor -pension institution-promise) stay very burdensome. For IORPS managing industry wide plans, this alternative is not workable and as such further investigation is needed.

We question the availability and timing of this sponsor data. Assume a sponsor accounting period ends on 31 December, figures only be publicly available after audit and presentation to the General Assembly, often only in the second half of the year. As such, we fear pension institutions will not have access to the up to date information. Often there will be a time span of 1 year. Given the volatile nature of this type of data, we question if this way is appropriate.

The credit ratings are used to link the probabilities of default to the credit ratios and the sponsor strength. As mentioned in Annex 2 of the document, the use of these credit ratings include some weaknesses (US focussed, based on historical information, results depending on the choice of the credit agency). Nevertheless we admit there is no immediate alternative.

We believe it is important to keep in mind that there is a big difference between defaulting on issued bonds and being insolvent.

it is important to keep in mind that there can be a big difference between defaulting on issued bonds (for example not paying interest amounts due as a result of liquidity constraints) and being insolvent (and as a result not being able to make sponsor support payments) Who has the highest

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

	<p>claim: the debt holders versus the pension creditors.</p> <p>One should always be aware that the technical value of sponsor support might not be equal to the legal or economical value.</p>	
Q06.	<p>Q6: Do stakeholders agree with exploring the possibility of including a standard table in the technical specifications that links credit ratios with default probabilities?</p> <p>Yes, as a first guidance. But IORPs should have the possibility to come up with own model. We suggest a comply or explain principle.</p> <p>We question the availability and timing of this sponsor data. Assume a sponsor accounting period ends on 31 December, figures only be publicly available after audit and presentation to the General Assembly, often only in the second half of the year. As such, we fear pension insitutions will not have acces to the up to date information. Often there will be a time span of 1 year. Given the volatile nature of this type of data, we question if this way is appropriate.</p> <p>Please note we highly question how these probability of defaults are used afterwards. Instead of applying these probabilities on a big number of cases, they are only applied on a single case. In other words, we ignore the law of large numbers. As such we can hardly believe the outcome is a reliable number.</p>	
Q07.	<p>Q7: Do stakeholders have other suggestions to derive default probabilities of the sponsor and to reduce reliance on credit ratings?</p>	
Q08.	<p>Q8: Do stakeholders agree that timing of sponsor support reflecting the affordability of making additional payments could be an improvement to the general principles for valuing sponsor support?</p> <p>Although it is stated that national legislation can overrule the value of the sponsor support (e.g. a maximum as % of wages, or a cap), we believe it is not totally clear if maximum periods as determined in national legislation can overrule these periods to value the sponsor support. If these periods are overruled by national, more strict short term recovery periods, the combination</p>	

Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
	<p>of EIOPA's approach and national regulation can put the sponsor's contribution under strain during stress periods. So EIOPA affordability approach only makes sense if it is not overruled by national regulation. (See also Q21)</p> <p>It is very difficult to answer this question as long as there is no further information on the supervisory framework.</p>	
Q09.	<p>Q9: Do stakeholders think that limited conditional sponsor support should be valued and included on the holistic balance sheet? Should it be included separately?</p> <p>We believe it should be possible to take into account limited conditional sponsor support (e.g. by a parent company, industry-wide IORPs, cross-border situations, ...)</p>	
Q10.	<p>Q10: Should more detailed guidance be provided in future technical specifications to value sponsor support that is subject to discretionary decision_making processes? If yes, please explain in what way. Could the suggested detailed guidance also be applied to benefit adjustment mechanisms that contain discretionary elements?</p> <p>The technical specifications were not totally clear on the elements related to discretionary decision making (sponsor support, benefit adjustments, asset related decisions). Role of sponsor support coming from the group in the context of discretionary decisions. Further guidance would be appropriate.</p>	
Q11.	<p>Q11: Please provide your general comments on the alternative approach.</p> <p>We welcome this alternative approach. Further attention should given for a workable solution for more complex situations differing from the 1-1-1 situation (sponsor/pension institution/pension promise) with IORPs covering industry wide plans in particular.</p> <p>We have some questions about the availability of accurate, complete and consistent data. We also believe there might be a timing issue to get access to this highly volatile data.</p> <p>The complex situations differing from a 1-1-1 situation (sponsor/pension institution/pension promise) can cause specific problems : a) in terms of complexity : assume 5 employers with 2</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

pension plans each - a multi-employer/industry-wide situation:

- Some plans are organised via group insurance (no HBS ? no sponsor support ?), other via a IORP
- Some plans are overfunded, others not
- Investments can follow different asset allocations
- Duration of the liabilities might be very different
- Not all employers act in solidarity with others
- Etc....

b) in terms of accuracy : assume a multi national situation, what if different companies around the globe are involved, assume a company with subsidiaries in EU, US and Asia Pacific

- How to avoid gearing effects ?
- What is legally enforceable or not ?
- A lot of decision making is discretionary
- Intercompany loans, transactions etc make it valid to look at consolidated level which might follow a non-EU approach with other terminology, other assumptions, other methodologies

c) even in a 1-1-x situation (1 sponsor/1 pension institution/ mutliple pension promises) there are questions how to attribute the numbers (e.g. a situation of segrageted compartments for 2 DB plans both with an underfunding, one plan is funded for 40% the other for 90%. Do we need 1 or 2 HBS ? In case of 2 HBS, which plan will get which part of the sponsor support : pro rate vested reserves, other pro rata (more need to fund the DB plan with only 40% funding ?) ?

Apart from these type of examples we also see problems for non-profit organisations, public authorities, IORPs organising self-employed professionals, etc..

Q12: Does the alternative approach address the concerns raised during the previous consultation on the technical specifications?

No. All situations different from the 1-1-1 situation (sponsor/pension promise/pension institution) stay unclear and/or very burdensome. (For examples see also Q11)

We believe further investigation, mainly testing, of this method is needed.

Q12.

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

Q13.	<p>Q13: Are there any areas that have not been addressed adequately enough? All situations different from the 1-1-1 situation (sponsor/pension promise/pension institution) : multi sponsor, multi plan, multi pension institutions, multinational, industry-wide, etc.... stay unclear and/or very burdensome. (For examples see also Q11)</p> <p>Although it is already a further simplification, we believe the process is cumbersome, as well in terms of data as in terms of process, for the many small and medium sized IORPs.</p> <p>We believe further investigation, mainly testing, of this method is needed.</p> <p>It would be easier to respond to all these questions if we would have a view on the supervisory framework.</p>	
Q14.	<p>Q14: Are IORPs still likely to want to calculate a maximum value of sponsor support (even if not required under the alternative approach)? If so, for what purpose? Only if methodology and assumptions underpin the result, it could be an indicator of a maximum risk for the sponsor.</p>	
Q15.	<p>Q15: Do stakeholders have other suggestions to adjust these ratios to cater for different sectors? Not clear how to apply for group entities ? Multi employer ? Multinational ? Public sector ? Industry wide funds ? (e.g. what is the basis to divide the shortfall over the different entities ? what if one entity has multiple plans ?</p> <p>How to get access to accurate and complete information ? (See examples Q11)</p> <p>Indicators are industry specific: different business cycles, investment in production tools, innovative behavior... Sponsors with lots of cash are favored. But large players also have to invest in production tools. The vision is too short-term. By taking this pure financial approach EU disadvantage and as such discourage sponsors who are open for innovation and investments. This</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

	might have a negative impact on the EU economy and its further growth and development.	
Q16.	<p>Q16: Does Stage 1 contain enough information and guidance for IORPs to calculate a credit strength that is proportionate for QIS purposes?</p> <p>Clear for a 1-1-1 situation but how to apply for other situations e.g. a sponsor with different pension promises organised via different pension institutions all with a different funding level. How to apply ? How to get access to accurate and complete information ? See also Q11.</p> <p>As the alternative approach is developed to offer a solution for small and medium sized IORPs, it is important that information, definitions and tools are available. In this context we need some further clarification about</p> <ul style="list-style-type: none"> • Paragraphs 54 : IORPs should calculate at least two standard credit ratios : who will define the other ratios : IORPs ? or will EIOPA define a list of which the IORPs can use 2 ? • Paragraph 57 : who will define the table 2 : EIOPA ? IORP ? <p>From these two paragraphs 54 and 57 it is not totally clear if a standard formula will be provided. But even if so, IORPs should always have the possibility to come up with an alternative approach and this based on a comply or explain principle.</p> <p>It is not clear, if a IORP would like to come up with an alternative approach, which criteria need to be met.</p>	
Q17.	<p>Q17: Does Stage 1 contain enough guidance for IORPs to do their own calculations if they believe this is appropriate for them to do so?</p> <p>Not clear how to apply for group entities ? Multi employer ? Multinational ? Public sector ? Industry wide funds ? (e.g. what is the basis to divide the shortfall over the different entities ? What if one entity has multiple plans ? How to get access to accurate and complete information ?) See also Q11.</p> <p>It is not clear, if a IORP would like to come up with an alternative approach, which criteria need to be met.</p>	
Q18.	Q18: Are Income Cover and Asset Cover suitable credit ratios to use	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

for Stage 1?

We question the availability and timing of this sponsor data. Assume a sponsor accounting period ends on 31 December, figures only be publicly available after audit and presentation to the General Assembly, often only in the second half of the year. As such, we fear pension insitutions will not have acces to the up to date information. Often there will be a time span of 1 year. Given the volatile nature of this type of data, we question if this way is appropriate.

Furthermore we have some concerns on the credit ratios as suggested:

- Income Cover is defined as EBITDA rather than Net CF. EBITDA refers to operating activities whereas Net CF also covers investing and financing activities and would be more representative of what is available for IORPs
- Asset Cover is the surplus in the audited accounting statements but if those are under Local GAAP, this value is far from market consistent and cannot be compared with IORP shortfall.
- There might be an important time lag between the audited accounting figures and the calculation date of the sponsor support (e.g. about 6-12 months), requiring some adjustment in case of any significant event

We question if two ratios are enough to determine the credit strength accurately. On the other hand introducing more ratios will make the alternative more complex. It seems to be difficult to find a correct balance between accuracy and simplicity.

Will the sponsor strength to determine the sponsor support value be information that is publicly accessible ? It is not impossible that based on the credit ratios income cover and asset cover, a big company sponsoring a big IORP might get a credit step weak, which risks to impact the sponsor's reputation and credibility. Is this still within the scope of a prudential legislation for IORPs ? Or does this belong to social and labour regulation ?

Q19: Are the parameters used to determine sponsor strength in Table 4 appropriate?

We assume the credit ratios are based on local GAAP information. Local GAAP differs from IFRS

Q19.

Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
	<p>and not all sponsors follow the IFRS standards (e.g. a contribution holiday can be detected in local GAAP figures but is invisible under IFRS as in IFRS the service cost is reported). Please note local GAAP still differs across EU countries. This might have an impact on the results (the denominator will be the same but the nominator won't) and as such on the comparability of the information across member states. How to get access to accurate, complete and consistent information ?</p> <p>Are 6 credit steps sufficient. There is an enormous gap between « weak » and « very weak ».</p> <p>Is the methodology of credit ratios appropriate given the fact that we look at sometimes very long payment periods (up to 50 years).</p>	
Q20.	Q20: What other definitions of earnings or net assets could be used in sectors where the standard definitions are not appropriate?	
Q21.	<p>Q21: Are the periods shown in Stage 2 appropriate (bearing in mind this is for QIS work only, and not to determine a policy response)?</p> <p>What if national supervisors require the shortfalls to be covered over a certain period e.g. maximum 3 years? Would this overrule the periods in table 6. It makes sense to link a market consistent approach which results in high volatility to less stringent rules in terms of contribution periods. But what if these contribution periods are overruled by local legislation, we will have a volatile market consistent approach (driven by EU) combined with strict rules regarding contribution periods (driven by national regulation) – this would create a lot of pain in stressful periods.</p> <p>In this context it would be very useful to get a view on the length of the recovery periods. Apart from all non 1-1-1 situations, further clarification is needed how to use this approach for the public sector (especially for those smaller public institutions which do not issue bonds).</p>	
Q22.	<p>Q22: Do you agree that time periods for contributions for the QIS calculations for sponsor support should be based on affordability or should they be based on willingness/obligation to pay?</p> <p>Yes, but it seems to be very difficult to define affordability. What do we take into account: gone concern or going concern. A company that plans to make investments for innovations might</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

	<p>prefer the investments above the sponsor support. This information is not visible in the accounts and often it is company information that is not disclosed.</p> <p>Is it feasible for a IORP to determine the sponsor's affordability? How to avoid the available wealth/money is use twice? Once innovation/investment projects are started there is an immediate impact on the sponsor support. Is this in line with other EU initiatives to enhance economic development and growth? Is this still within the scope of a prudential legislation for IORPs ?</p>	
Q23.	<p>Q23: To what extent are there any IORPs whereby sponsor contributions cannot exceed certain limits (even if contributions are affordable)?</p> <p>In the Belgian context company contributions even if they are affordable, they are restrained by tax regulations and/or management agreements with the sponsoring undertakings and/or the plan rules.</p>	
Q24.	<p>Q24: Are the annual probabilities of default appropriate for future QIS purposes? If not, why not?</p> <p>The default rates are taken as derivatives of the credit rates. The advantages and disadvantages for doing so are listed on page 46/47. Further investigation for suitable alternatives might be valid.</p> <p>There is a distinction between the probabilities of default used to calculate the SCR counterparty, which is on a 1yr-horizon, and the BE recoverables, which is based on a run-off horizon. QIS IORP assumed that sponsor's probability of default was constant over time, ignoring the term structure effect. The proposed probabilities attempt to capture the increased probabilities of default over time. The probabilities of default seem to be much higher compared to those used in the QIS exercise, and those used in the context of Solvency II. Further investigation between IORP sponsor support and SII BE recoverables would be welcome (recovery rate, PDs, periods of time,...): what would be the area of convergence and divergence and why? How can we make sure the level playing field is respected? Herewith an overview of the different credit ratings/credit steps and probabilities of default:</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

AAA 0.002% → Very strong 0.1%
 AA 0.01% → Very strong 0.1%
 A 0.05% → Strong 0.2%
 BBB 0.24% → Medium strong 0.5%
 BB 1.2% → Medium 1.6%
 B 4.175% → Weak 4.5%
 CCC or lower 4.175% → Very weak 26.8%

We note a mismatch between the reference period to determine the probability of default and the contribution period : e.g. very strong sponsor → contribution period 1/3/5 years (see table 6) <-> probability of default based on suggested 1yr period based on 10 yr cumulative rate/10
 Very weak sponsor → contribution period 20/30/50 years (see table 6) <-> probability of default based on suggested 1yr period based on first year rate

Please note we highly question how these probability of defaults are used afterwards. Instead of applying these probabilities on a big number of cases, they are only applied on a single case. In other words, we ignore the law of large numbers. As such we can hardly believe the outcome is a reliable number.

Q25.

Q25: Do stakeholders have any comments on stage 3?
 What is the discount rate of 3% reflecting? Is this representing the risk free interest rate (see 80) ? The expected return on assets (see footnote 13)? Not very clear.

Footnote 13 states this discount rate will vary by country . Please explain.

Q26.

Q26: Is it reasonable to not allow for any recoveries from sponsor defaults? Please provide examples where this could increase the calculated value of sponsor support.
 It seems to be too severe not to allow for any recoveries.

Recoveries are very driven by local legislation. Not taking into account any recoveries :

- makes it more difficult to compare the HBS across the EU as the recoveries will change the

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

	<p>real life situation depending on the local legislation</p> <ul style="list-style-type: none"> • totally ignores the solidarity approach in the context of many multi employer IORPs • the probability of default determined by the credit ratings are based on the defaults which are often caused by problems of liquidity. This does not always means there is insolvency. Using these probabilities of defaults in combination with no allowance for recoveries is too severe <p>The recoveries can depend on the level of the shortfall ? Small shortfalls big recoveries, big shortfall small recoveries ?</p>	
Q27.	<p>Q27: Is it appropriate to do separate calculations to allow for sponsor support from other group companies (both for legally enforceable and not legally enforceable support by group companies)?</p> <p>Yes, this split seems reasonable. Moreover because non enforceable support requires management decisions.</p>	
Q28.	<p>Q28: Should any other guidance be included on how to allow for sponsor support from other group companies?</p> <p>Some further guidance could help.</p> <p>How to get access to relevant, accurate, complete and consistent information? E.g. a global multi national with different pension schemes/pension institutions in place in different countries around the globe? Comparability of local GAAP information?</p>	
Q29.	<p>Q29: What could be other valid reasons why the IORP should or should not take the financial position of the wider sponsor group into account when assessing the sponsor's financial position?</p> <p>Intercompanies loans, transactions, etc... make it valid to look at a consolidated level.</p> <p>On the other hand we should avoid gearing effects. As such, getting access to accurate, complete and consistent information becomes key.</p>	
Q30.	<p>Q30: Is the approach to determining the loss_absorbing capacity appropriate?</p> <p>We understand the SCR calculation is still an iterative process. Please confirm.</p> <p>This approach makes sense although the iterative process is very burdensome. Good tools will be</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

	<p>necessary.</p> <p>Showing the gross SCR elements together with the loss absorbing capacities (benefit mechanisms, sponsor support) might have an added value in terms of risk management/reporting for/to the stakeholders.</p> <p>Could the sensitivity analysis be used as a short cut for the complicated and iterative SCR calculation ? (e.g. for smaller IORPs, a full SCR approach every 5 years and in between a sensitivity analysis only ?, ...)</p>	
Q31.	<p>Q31: Should any other sensitivity analysis be considered? Sensitivity analysis is already too extensive especially if it needs to be seen in combination with the SCR approach.</p> <p>Could the sensitivity analysis be used as a short cut for the complicated and iterative SCR calculation ? (e.g. for smaller IORPs, a full SCR approach every 5 years and in between a sensitivity analysis only ?, ...)</p>	
Q32.	<p>Q32: Are there any other types of sponsors that should be included? How to apply for IORPs with self employed individuals, cross border IORPs ?</p>	
Q33.	<p>Q33: What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory environment? Comparable sponsor's IORP/pension scheme information should be available to make a correct assessment of a IORP belonging to a sponsor with different IORPs/pension schemes (national, multi national, global).</p> <p>Sponsor support of the wider company group requires more accurate reporting to make access to information feasible and to avoid gearing effects.</p> <p>We question if there enough resources available to make all these complex calculations, as well at the IORPs side as at the side of the supervisory authorities?</p>	

**Comments Template on
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline
31 October 2013
18:00 CET**

Is this regulation not overshooting the capabilities of smaller and medium sized IORPs?

We should have a solution for all situation differing from a 1-1-1 (sponsor/pension institution/pension promise) scenario as well as for IORPs in the public or not for profit sector and the cross border situations. These situations are still understudied.

We regret the commission aborted the study about the macro economic impact of the holistic balance sheet. Besides the risk of the reallocation of assets towards fixed income, introducing the sponsor support element might have a big macro economic impact and risks to create other types of risk such as systemic risk, concentration risk. It might even risk that sponsors will no longer provide occupational pension schemes if certain risks for the sponsor are involved (defined benefit plans). This should be studied before further initiatives are taken.

Q34: What other improvements could be made to the suggested approach?

The iterative process of the calculations is only feasible if accompanied by good tools to limit the administrative burden and take into account the proportionality for small and medium sized IORPs.

Solutions to ensure less complex administration to get timely access to accurate, complete and consistent data could help small and medium sized IORPs to make the process feasible even with limited resources.

A solution that fit the IORPs different from a 1-1-1 situation.

We would very welcome solutions that do not ignore the wider impact on sponsors, on the further growth of occupational pensions and on the development and growth of the EU economy in general.

Q34.

Q35: Are there any aspects of the suggested approach which are unclear?

Q35.

Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
	<p>It would be more clear to specify the discount rate each time. The current text is very confusing.</p> <p>We should have a solution for all situation differing from a 1-1-1 (sponsor/pension institution/pension promise) scenario as well as for IORPs in the public or not for profit sector and the cross border situations. These situations are still understudied.</p>	
Q36.	Q36: How could the average financial strength of an industry be determined?	

DRAFT