	Comments Template on **Discussion Paper on Sponsor Support Technical Specifications**	**Deadline** **31 October 2013** **18:00 CET**
Name of Company:	BASF SE	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a question, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to DP-13-001@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to Dicussion Paper on Sponsor Support.	
Reference	**Comment**	
General Comment	The presented methodology makes an attempt to improve on the shortcomings of the valuation of sponsor support in the IORP QIS performed in 2012. Several of the shortcomings of the previous methodology for sponsor support valuation are addressed in this discussion paper though not resolved in a sufficient way. We generally appreciate EIOPA's attempt to overcome the technical weaknesses of the QIS. The approach presented can be more adequate for the valuation of small sponsors (without rating). However the approach presented is again very complex. Many IORPs will face significant difficulties when having to perform this kind of calculation.	

	The first IORP QIS performed in 2012 demonstrated that any Solvency II type capital requirements for IORPs will not strengthen the system of occupational retirement provisions in Europe but rather pose an existential threat to it. We therefore do not see any reason to conduct further QIS work based on elements of Solvency II, particularly after Commissioner Barnier announced that pillar I will not be part of the new IORP directive. Even though further work on valuating sponsor support might improve some technical details of the HBS approach, it does not solve the problem that the HBS approach is in total an inadequate tool for supervisory purposes of IORPs. The HBS approach does not account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. Every move towards a system that places heavy burdens on IORPs and their sponsoring undertakings must take into account that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. Higher costs either on the employer's or on the employee's side will lead to a decrease in coverage of occupational pension plans. Moreover, we generally consider the market value based approach inadequate for liabilities with such long durations. The discussion paper does not address the general question whether and how sponsor support will be reflected in the balance sheet of a sponsor. Since accounting for sponsor support properly might be linked to significant financial consequences for the sponsoring undertaking, this point needs further elaboration and transparency. We understand that mechanistic reliance on ratings shall be reduced. However, we encourage	

	EIOPA to carefully assess the quality of alternative methods before taking any conclusions.	
Q01.	It has to be kept in mind that stochastic valuations are mostly very complex. Even if guidance is provided, we do not believe that many IORPs have enough resources to do stochastic valuations. No IORP should be forced to use stochastic models and the possibilities for a simple deterministic model should be kept.	
Q02.	The considered simplifications should be kept in any further QIS (should there be one). Generally, we do not consider further QIS work necessary (see General Comments).	
Q03.		
Q04.	We do not consider wages a good indicator for pension liabilities or sponsor strength in Germany.	
Q05.		
Q06.	Generally yes. The figures in such a table would need to be carefully calibrated in order to provide a realistic picture of default probabilities in case ratings are not available. The validity of the calibration should be assessed by comparing the estimated default probabilities with market implied default probabilities or by statistical analyses based on historical data. They key problem is that credit ratings are based on a much richer set of information compared to credit ratios. Therefore any derived measures based on ratings appear to be more reliable compared to measures based on two credit ratios. If IORPs are free to choose which credit ratios they want to use the resulting figures will lack comparability.	
Q07.	Market prices could give additional information to be included (e.g. credit default swaps for corporate debt).	
Q08.		
Q09.		
Q10.		
Q11.	The alternative approach could be useful for the standard case with a medium sized sponsor with	

	1 IORP. Generally the credit ratio method seems less sound compared to standard credit ratings as ratings are based on much more information and thus supposedly provide a more reliable estimate for a sponsor's probability of default. The suggested approach still seems to be very complex, in particular for small IORPs. Some aspects of the method need further explanation or elaboration or otherwise seem very arbitrary (e.g. tables 4 and 6).	
Q12.	The approach addresses some of the concerns but does not resolve them. It does not deal sufficiently with many special scenarios. The comparability of this approach should be tested and demonstrated by means of a validation study based on historical data (testing if values for Sponsor support under standard rating based valuation and under the alternative method are comparable).	
Q13.	Non standard cases have not sufficiently been addressed (see comment to Q32). It is difficult to judge the adequacy of this approach without knowing the consequences of the value of sponsor support.	
Q14.	See comment to Q3.	
Q15.		
Q16.	We still consider this approach far too complex for a QIS. We doubt this method will make more small and medium sized IORPs want to join a QIS effort and will later be able to execute such calculations.	
Q17.	The general idea is presented clearly.	
Q18.		
Q19.	Not clear how the presented relation is derived, i.e. how callibration is executed. Income cover is only related to sponsoring company and does not reflect the potential shortfall of an IORP. It is therefore surprising that sponsors with high income cover (but low asset cover) can be classified as 'strong sponsors' even though they might not be able to step in for the shortfall of of a large IORP. We suggest that either income cover should also be related to an IORP's service costs or the weight of asset cover in the determination of sponsor strength should be increased.	
Q20.		
Q21.	It is not clear how exact payment periods are derived.	

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Q22.		
Q23.		
Q24.	It is not clear how probabilities are derived. The difference in sponsor value by sponsor strength (in particular for “weak” and “very weak”sponsors in table 10) is substantial. A higher granularity in the scaling might be an improvement.	
Q25.		
Q26.		
Q27.	If sponsor support must be calculated for each sponsoring undertaking, the calculation will become very complex for IORPs with many sponsors.	
Q28.		
Q29.		
Q30.	The approach presented seems very complicated and time consuming since the calculation in stages 1-6 must be done in every single stress scenario.	
Q31.		
Q32.		
Q33.	We doubt that the approach presented to cater IORPs with charity sponsors, multi employer IORPs or IORPs with public sponsors will make those IORPs want to take part in the next QIS (should there be one). The ideas presented for “other types of sponsors” seem vague.	
Q34.		
Q35.	The suggested methodology for other types of sponsors (charity, public sector etc.) seems vague.	
Q36.		