Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
Name of Company:	Robert Bosch GmbH	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comment	**A Solvency II framework is not adequate for IORPs** The current discussion paper undertakes an attempt to improve on the shortcomings of the valuation of sponsor support in the IORP QIS performed in 2012. EIOPA has tried to address the major shortcomings of the previous methodology for sponsor support valuation but not resolved them in a sufficient way. We generally welcome EIOPAs attempt to address the weaknesses of the QIS, however the approach presented is again very complex. Our IORP will face great difficulties when having to perform this kind of calculation. Any HBS based solvency II framework is inadequate for our IORP. The model is not	

suitable for describing the reality of German IORPs. The results of the first IORP QIS in 2012 have convincingly evidenced 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 the need to conduct further QIS work based on elements of Solvency II.

It is obvious therefore that 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 commercial character of insurance companies) and is therefore not appropriate.

Every move towards a system that places heavy burdens on our IORP must take into account that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. In general, every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this important social benefit. Moreover, we consider the market value based approach inadequate for liabilities with such long durations.

IORPs are deeply rooted in national labour law, and in a correspondingly developed national supervisory law. As both legal systems are very heterogeneous across the EU, every unifying set of regulatory rules will necessarily be too complex to be handled with reasonable effort. It should be taken into account that the resulting costs will be borne mostly by beneficiaries and members.

The acknowledgement of the importance of sponsor support is an attempt in the right direction

The approach proposed in the Discussion Paper borrows from credit checks in bank lending and is clear and comprehensible in its features. The modified approach has two main advantages. First, it allows IORPs with relatively large sponsors to balance their accounts, where before there would always remain a gap. Second, the problem that sponsors who do not have a credit rating get relatively poor default rating has been addressed. However, while EIOPA has attempted to address these issues, they have not all been *resolved*, some problems have not been addressed and others have emerged.

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. The alternative approach is only a small step in the right direction, because important and difficult questions have not been sufficiently addressed yet, in particular the complexity of the approach, situation of multi-employer and industry schemes and sponsors with several IORPs. Overall, we have four main concerns:

1. **Generalisation: not really simpler and not adequate, particularly for MES**

In the previous QIS, all IORPs where sponsors did not have their own credit rating had to use a relatively poor rating in their calculations – the current proposals attempt to address this problem by offering IORPs to do their own calculations. However, the generalisation creates new problems. As any generalization, the suggested approach might make things easier for some IORPs, but it can also be expected that for a large number of individual cases it will not fit. The crucial question is still what is done with the results: within the HBS as well as the then derived economic consequences (see below). If the consequences for the IORP are significant, due diligence must be carried out. All parameters have to be questioned and analysed to determine which the better fit is rather than to accept standard suggestions. The result is the opposite of a simplification. In the case of multi-employer schemes (MES), industry schemes and sponsors who run a number of schemes additional problematic aspects emerge.

2. **Which consequences are tied to the results, where do the parameters for the calculations come from?**

To choose one approach over another, in the first place we need to know what the consequences of these calculations are. As with all generalizing procedures, the applicability is seriously hampered because it does not fit for many individual cases. Here again it matters what is done with the results – both within the HBS and in a wider context. Otherwise it is not possible to make an informed decision on which approach to follow.

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.

Similarly, it is difficult to answer the questions in the discussion paper without knowing what the consequences will be. It matters what role the sponsor support will play in the HBS, and what the overall economic consequences of the HBS will be. Without this information, we can only respond to EIOPA's questions tentatively.

In a similar vein it would also have been useful if more background information was provided. Often it is not clear how certain parameters are derived (for example Tables 4 and 6 of the Discussion Paper).

3. **Data requirements: difficult, particularly for MES and industry-wide**

schemes

EIOPA should consider whether the data requirements are realistic. We imagine that MES with a large number of small employers will struggle to get all the required information from their sponsoring employers. The fact that many industry wide schemes have often more than thousands financial independent and potentially very small sponsors is not treated in a sufficient manner from our point of view.

4. Sponsor support and insolvency protection

The purpose of the Discussion Paper is to propose a practical approach for calculating sponsor support. We consider it questionable whether this is necessary for our IORP which has in place two security mechanisms: sponsor support coupled with mandatory insolvency protection. Not only would an individual calculation of sponsor support be a highly complex, spuriously accurate and potentially costly exercise, it would also be unnecessary. Even worse, despite the double securing mechanism, the risk remains, that the sponsor would be required to disclose the value of its (questionably calculated) contingent commitment in its own financial statements. A more practical approach would be to reflect the nature of the employer support and insolvency protection scheme, which enable a comprehensive level of protection across the Member State. The HBS should, in these cases, be regarded as balanced, thereby rendering obsolete additional spuriously accurate calculations.

Conclusion

It is crucial that EIOPA bears in mind that their recent work could have a dramatic impact on the appetite of corporates to sponsor occupational pensions. Looking at the modified approach to calculating sponsor support in isolation, it is a small step in the right direction,

	but a number of issues (see above) are still questionable. This does not change anything in our position against a Solvency II framework for IORPs. As laid out in the introduction, we do not think that this is an adequate framework for supervising IORPs, and tinkering with concepts such as sponsor support does not make it more adequate.	
Q01.	The order needs to be changed: the deterministic approach should not be a “lower-quality” alternative, but a first choice in its own right. Each IORP needs to be able to decide whether they use the stochastic or the simplified calculation. Even if guidance was provided, the costs for our IORP will be high and we do not believe that many IORPs have enough resources to do stochastic valuations. Overall, we consider it best to leave it at the IORP’s discretion to decide whether the value added by internal models justifies the resources dedicated to the development of such models.	
Q02.	Generally, we do not consider further QIS work necessary (see General Comments). However, should there be another QIS, the considered simplifications should be kept (in particular Simplification 2, Simplification 1 is less important to German IORPs). With any simplification it is crucial that it is viable for IORPs and that there are opening clauses so that special schemes do not have to follow the simplification. However, “over engineering” of the simplification should be avoided. The applied assumptions must be stated more clearly.	
Q03.	As EIOPA states in the Discussion Paper, there are no “universally recognised standards” of calculating maximum sponsor support. If EIOPA thinks the HBS should be developed further – contrary to our position – additional research could identify better ways of using the concept of maximum sponsor support.	
Q04.	No, it is not.	
Q05.	No, because it is unlikely that it is possible to specify something of general applicability / general validity which works on the level of the individual IORP. It therefore cannot be the only factor taken into account. For example for long-term assessments default probabilities must be used very carefully. Using market data / calculated ratings for a timeframe of e.g.	

	10 years and combining it with a fixed (high) probability for 10 years+ may merit further consideration. In general the concept is not sufficient, because it does not include mandatory insolvency protection and last man standing principles which support employers of many IORPs (see General Remarks on the complementary nature of sponsor support and insolvency protection). Finally, to answer this question properly it would be important to know what consequences the results will have.	
Q06.	This would be an intellectually interesting approach, but we do not think this is feasible in practice. 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 would have to be assessed by comparing the estimated default probabilities with market implied default probabilities or by statistical analyses based on historical data. The key problem appears to be 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 credit ratios (average values for different sectors, cycles, etc.?). In practice this approach can also be challenging because of market volatility. In a nutshell, it will be difficult to achieve general validity with this approach.	
Q07.	We do not have any suggestions for general applicability.	
Q08.	Yes, this would be more appropriate, but we do not see how this could work in practice. The application would be very complex and would create many uncertainties.	
Q09.	This is not relevant for our IORP.	
Q10.	This is not relevant for our IORP.	
Q11.	As stated in the General Comments, the alternative approach may be useful for the standard case with a medium sized sponsor with one IORP, and addresses the problems for	

	unrated IORPs. 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. We oppose the introduction of any new data requirements. However, if any new data requirements were to be introduced at all, this should only be done for the future, because in the past the necessary data was not collected. Some aspects of the method need further explanation or elaboration or otherwise seem very arbitrary (e.g. Tables 4 and 6). Large IORPs should also be allowed to use the simplified approach.	
Q12.	The approach at most attempts to address some of the concerns but does not resolve them (see the General Comments for more detail). The presented approach bares the potential to become very complex and still does not deal with many special scenarios.	
Q13.	Yes, there is a number of areas which have not been addressed adequately. Our main concerns are (see the General Comments for more detail): • Generalisation: not really simpler and not adequate, particularly for MES. The problem of unrated companies has been addressed, but other central problems have not been solved. • Which consequences are tied to the results? • Where do the parameters for the calculations come from? • Data requirements: difficult, particularly for MES • Sponsor support and insolvency protection	
Q14.	As EIOPA states in the Discussion Paper, there are no "universally recognised standards" of calculating maximum sponsor support. If EIOPA thinks the HBS should be developed further – contrary to our position – additional research could identify better ways of using the concept of maximum sponsor support.	
Q15.		
Q16.	We are concerned about a number of points, including those raised in the General	

	Comments. While the description of the sponsor still works, the picture of the future must be incomplete. In addition, it is unclear how the parameters presented in the tables were derived. 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 idea is clear. We do not think that more guidance would be adequate, because it would mean convergence on the lowest common denominator, which would make the model less suitable for a large number of IORPs.	
Q18.	Generally yes (description of the balance sheet and the strength of the sponsor can be used for calculating sponsor support), but it cannot be everything that is considered. In many cases it will be difficult to collect the corresponding data. The final results will depend on the application of Table 4. It might be difficult to find a generally valid factor. In addition it would be important that the Standard&Poors data in Table 3 really represents the actual sponsors of the IORPs (e.g. countries, sectors) and that it is valid und transparent. The used data in Table 3 seems to include a global set of companies, that non-essential are suitable (Data for the Middle East and Africa?). The involved industry-sectors and the distribution of the sectors are not clear. In addition the dataset only covers the period 2009 to 2011. Such a short period is very much influenced by actual market cycles.	
Q19.	It is not clear how the presented relation is derived, i.e. how the calibration is executed, more detailed reasoning is required. The data in the table should be checked in regard to the distribution and variation across sectors and countries; the extreme values in the table are not symmetric and the validity of the values should be considered – are the given relative figures appropriate? This is all hard to judge on from outside. Even the starting	

	point, the Standard&Poors data is questionable with respect to its applicability in this context.	
Q20.		
Q21.	Again it is not clear how payment periods are derived (short/medium/long; very strong/strong etc.). For a proper discussion about whether this calibration is adequate, it would again be necessary to know what the implications of the results are.	
Q22.	In Germany the sponsoring employer is obliged by labour law to ensure that the pension promise is met. The timing of sponsor support is defined by supervision/prudential law or on an individual basis by the Bundesanstalt für Finanzdienstleistungsaufsicht.	
Q23.	No, there are no general contribution limits in Germany.	
Q24.	The figures presented in Table 7 have to be subject to the same conditions mentioned in the answer to question 18.	
Q25.	Again it is not clear where the parameters come from: what does short/middle/long stand for, especially with respect to the consequences and how does this fit into the overall model? In addition, the differentiation of Table 10 seems over-engineered when taking into account the rough figures one started with.	
Q26.	In Germany sponsoring employers of Pensionsfonds are legally obliged to pay into the national insolvency protection system (Pensions-Sicherungs-Verein), which would lead to a probability of recovery close to 100% (see also General Comments for the relation of sponsor support and insolvency protection).	
Q27.	No, this is not appropriate because it is too complex and the necessary data is often not readily available. If sponsor support must be calculated for each sponsoring undertaking, the calculation will become very complex for many sponsors organised in larger groups. Legally not enforceable support from a group member must be considered very carefully, e.g. only be included if there is very solid evidence that it will be of value.	
Q28.	The concept needs further evaluation especially for industry-wide schemes, multinationals and holdings with companies ranging from minority shareholders to 100% shareholders.	

	However, fitting the model to a wider variety of schemes will inevitably lead to more complexity. Ever more complexity will make it less and less feasible for IORPs to carry out the calculations.	
Q29.	It should be considered what is adequate according to the structure of the liability. It is not always clear how the liability is structured in corporate groups / enterprises, in particular if mergers took place more than a decade ago.	
Q30.	The approach is consistent within the concept chosen by EIOPA which is inadequate from our point of view. Its applicability is unclear and complex. The main question then is what is done with the results.	
Q31.	No, there are already too many parameters to be included in the calculations, in particular in conjunction with the different QIS scenarios - the calculations carried out for the QIS were already very complex.	
Q32.		
Q33.	We do not believe there is a one size fits all methodology for valuating Sponsor support. If this was to be taken forward, we would have to find an acceptable way to calculate the required credit ratios for multi-employer / industry wide schemes. It seems to be clear that there will never be exact calculations (it is questionable to what extent it is possible to rely on sampling). So there is a need to accept certain approximations.	
Q34.		
Q35.		
Q36.		