Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
Name of Company:	Aon Hewitt	
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 paragraph or a cell, 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 CP-12-003@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.** The numbering of the paragraphs refers to Consultation Paper 12-003.	
Reference	**Comment**	
General Comment	We are a global organisation, with a significant presence in Europe and a provider of advice and services on retirement benefits to thousands of current and former employees around the world. We advise significant occupational pension plans which have millions of Euros invested around the world. We urge EIOPA and European Commission to re-think its approach to the review of the IORP Directive including this current consultation. We are extremely concerned about the potential impact of any change to legislation on the future costs of these plans and the global competitiveness of the European region. **The current system is not broken - we do not see a need to fix the current method of funding,**	

The majority of IORP pension assets in Europe are in UK and Netherlands, and we believe these are two good examples of countries which have developed, and are continuing to develop, good risk-based supervision. Other countries with lower levels of pension assets have equally sensible systems that have been established under the prudent framework required by the existing IORP Directive, and the Commission has publically stated that there is no question that systems working well will be penalised. The case has not been made for a new system which requires European companies to pay even higher levels of contributions as this could reduce our global competitiveness.

The undue haste with which this QIS is being conducted heightens concerns that the Commission wishes to impose insurance style solvency standards on IORPS. There has been no public debate and discussion on the balance to be struck between greater security for members' benefits and the competitiveness of the sponsors backing those IORPS. The uncertainty around the future of pension funding could lead to critical European business decisions (such as hiring and capital investments and other investment transactions) being put on hold. All other things being equal, companies may be more likely to want to invest in countries which do not have significant pension liabilities (eg Asia), or countries which have introduced funding stabilisation (e.g. the USA). In the charitable and non-profit sectors (eg public service providers, academic and research institutions, churches), organisations with pension plans may have to consider whether to hold funds back that would otherwise be used for meeting core charitable and non-profit objectives. This could have a detrimental impact on philanthropic and other non-profit activity.

The current QIS specification is rushed for no apparent purpose and casts grave doubts on the credibility of EIOPA and the Commission. In I.10.2, EIOPA has stated that the success of the QIS crucially depends on the quality of the technical specifications and the support of the occupational pensions sector. We have grave concerns that, as things currently stand, neither condition is met, and this means EIOPA has a lot of work to do in order to ensure the QIS is successful and meaningful. Given the large number of comments that we and no doubt others have made, we would hope that EIOPA is able to issue an updated version for at least one more round of consultation before going ahead with the QIS. In particular, it is clear that more time

	and effort is required to develop the way that the sponsor covenant is reflected. **EIOPA should push back on the artificial timescale imposed by the EC.** We understand that EIOPA is under pressure from the European Commission to progress the QIS as soon as possible. However, we believe that the independence and professionalism of EIOPA will be questioned if it proceeds with such an obviously flawed QIS rather than taking the time to consider properly the intended purpose of the proposed calculations, and the new elements required to apply the calculations to IORPs (particularly IORPs with the support of a sponsoring company) rather than to insurers. EIPOA should know only too well that the process of developing the QIS for insurers took a significant time, as issues were identified and addressed - indeed there are some fundamental points which have still not been resolved after seven years of discussion and five QISs! IORPS across Europe have a much greater diversity than the European insurers and this is likely to extend the timetable to develop suitable proposals, rather than compress it. **Consulting on the detail of the calculations before deciding on how the calculations will be used is a very poor approach.** One reading of the proposals, that benefits can be reduced to make the balance sheet balance, appears to make the entire exercise pointless. It is very difficult to provide comment in these circumstances. If, as a result of the QIS, there are firm proposals with explicit implications for scheme funding we are likely to have many further comments on the details. The occupational pensions sector needs to have the confidence that the final parameters will be appropriate and, without significant change to the existing parameters and further consultation, EIOPA runs the risk that the final parameters will be heavily criticised and that they are still not suitable for the QIS. We are very concerned that this could damage the credibility and reputation of EIOPA within the occupational pensions sector. **The actual technical specification is a rushed jumble of highly complex analysis lifted from Solvency II for insurers, and some heroic and arbitrary assumptions for the special circumstances of IORPS** - such as covenant and the impact of inflation on benefits. This confirms our suspicions about the unnecessary speed with which this QIS is being conducted.	

Consideration should be given to how any new requirements might affect sponsors' international competitiveness. For example, the US Congress passed new legislation in June 2012 which allows US pension plans to use a discount rate from within a corridor of bond yields averaged over the last 25 years. Known as "funding stabilisation", this move was widely supported by US industry, and was in direct response to the challenging economic environment and government actions to artificially reduce interest rates. This move eases the burden on US plan sponsors, although there are clearly implications for the security of benefits for members. We urge EIOPA and Commission to consider how their proposals compare with the US approach and consider the impact on the global competitiveness of European companies (at least relative to US companies) if local funding requirements are ultimately, as a consequence of the QIS, significantly out of line with those used by companies in the US. We note with interest that EIOPA recently hosted a meeting of the EU/US insurance dialog project, intended to increase mutual understanding and cooperation. A similar initiative would help for IORPs.

The Holistic Balance Sheet does not balance! Importantly, the mechanics of the overall calculation suggest to us that, however big the sponsor is relative to the scheme, and however strong the sponsor (measured through risk of insolvency), unless the planned deficit contributions are expected to generate a surplus (and which subsequently stays in the scheme) against a risk free measure of liabilities and/or the sponsor has no credit risk (which is not possible), then the holistic balance sheet will show a shortfall. In other words the sponsor covenant can reduce the holistic balance sheet deficit but it cannot eliminate it.

If the ultimate intention is to use the Level A measure proposed for funding, this means that the sponsor covenant does not remove the indicated need to more than fully fund the IOPR on a risk free basis. So, allowance for the employer covenant might as well be ignored. Alternatively, if benefits can be reduced to make the balance sheet balance the whole exercise appears to be pointless.

The methods posed for evaluation of employer covenant are fundamentally flawed and should

	be revised from first principles. An assessment of employer support should be a key part of any holistic balance sheet. Most covenant advisors (including the UK Pension Regulator, it appears) currently assess covenant on a scale of "strong" to "weak" reflecting the sponsor's long term strength relative to its financial liabilities rather than attempting to express it as a numerical value. Many European pension schemes are part of complex global companies or have multiple employers which support the pension scheme. It is not clear how such schemes would value the sponsor's covenant. Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae dealing with covenant. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities.	
Q1.	No. The limited QIS outlined will be of very limited use. A decision needs to be taken on how the results of these complex calculations might be used at the outset. It will only be possible to carry out a meaningful cost benefit analysis once this is decided. Fundamental questions have not been addressed - Will the model have any impact on scheme funding? If there is an impact will the target be Level B technical provisions, Level A technical provisions or technical provisions plus SCR, or something else? We understand that because of the number of options being looked at, which will generate vast tables of results, EIOPA intends to rely on information from national regulators aggregated across that country's IORPs. We believe this is a dangerous approach which will obscure the variation of results between the IORPs within that country. If the information is unmanageable otherwise, this just demonstrates that the proposed QIS is trying to do too much at once, and that insufficient thought has been given to the end objectives. In order to be able to gauge the impact of any potential new funding requirements, the QIS must be carried out at a level of granularity to	

	enable some fundamental questions to be answered such as: (i) what proportion of IORPs in a country would be impacted? (ii) what is the range of impacts across the IORPs? (iii) is there a bias towards large or small companies? (iv) what industries or sectors are most impacted? Aggregated data will simply obscure these fundamental details; at the least ,the type of breakdown set out in the UK Pension Regulator's Orange Books would be needed if any meaningful assessment of new proposals is to be carried out.	
Q2.	We believe that there is too much detail in places, and that in certain areas (sponsor support) there won't be enough information to allow European Commission to make informed decisions on policy suggestions. In addition, it is not completely clear how benefits which can be reduced in the event of sponsor default are dealt with under the definition of 'pure conditional benefits'. If the sponsor defaults, there is not likely to be any additional funding so benefits may well be reduced, irrespective of whether the IORP documentation says so or not. It has been suggested that this means benefits can be reduced to make the balance sheet balance. However this would appear to make the whole exercise pointless. It is also unclear what order the adjustment mechanisms should be applied (both in the HBS and the SCR). Applying them in different orders could significantly alter the presentation of the results.	
Q3.	The proposals are certainly not "clear and understandable" – the extremely complex nature of the proposed calculations means that this is a very difficult target. There appears to be a mixture of deterministic projections, projections on arbitrary distributions, projections on real world probability distributions and projections on risk neutral probability distributions. Whilst the purpose of the calculations remains unclear, we believe it should be possible to significantly reduce the number of calculations and provide more information for policy decisions.	

	We would be pleased to share our views on this with you, once it becomes clearer how the results of the QIS will be used in practice.	
Q4.	It is difficult to form a view on whether the calculations can be carried out at "appropriate cost" without further information on how the ultimate results might be used. Our view is that this crucial element should be decided before any calculations are undertaken. If, for example, there will ultimately be no direct impact on scheme funding then we would suggest that the QIS exercise should not take place. As things stand, we think the answer to the question on appropriate cost is no. In terms of accuracy, please see our comments to PRO.3.20. It should be possible to do most of the required calculations, in the short time available, to within an accuracy of 5-10% (ignoring the biggest source of inaccuracy in relation to the expert judgement needed to assess whether the EIOPA's proposed simplifications for sponsor support are appropriate). For an estimated €3 trillion of liabilities in EEA IORPS, this corresponds to an accuracy level of c €200 to €300bn. EIOPA should consider whether this level of accuracy is appropriate for the QIS exercise. National regulators may be able arrange production of approximate figures in line with the QIS, making heroic approximations and simplifications where data is not available. This may be acceptable in order to produce aggregated results across all IORPs as a whole. However, these short cuts would not be appropriate if the calculations were applied to produce numbers for individual IORPs under any eventual regulatory requirements. Consequently, the QIS will not test the feasibility of imposing the proposed calculations on the large number of individual IORPs.	
Q5.	No. We have identified some areas which require additional clarity in our comments on specific paragraphs below. We think some worked examples would help to explain the necessary calculations and may also help to highlight some of the fundamental weaknesses at the heart of the calculations and their application. The key areas where we believe the technical specifications for the holistic balance sheet needs to be improved are: • The derivation and application of sponsor support • The treatment of pension protection schemes	

	• Dealing with inflation and salary increases • The justification of the long-term forward rates • Calculation of discount rate for level B Technical provisions • The inclusion or otherwise of salary increases in Level A Technical Provision • The treatment of pension increase and revaluation subject to caps and collars	
Q6.	Generally, we would support as many simplifications as possible, given the unnecessary costs being incurred without any clear objective. At present there is a mix of extreme complexity (modelling numerous scenarios and correlations) heroic assumptions (in particular in the context of employer covenant, where the 50% assumption in HBS.6.36 is not adequately explained in the context of pension plans) and, in relation to the level of complexity elsewhere, over simplification on key parameters such as inflation and salary growth. To take the employer covenant as an example, this relies on a calculation of the maximum value of sponsor support calculated without default risk. This in turn relies on discounting future net profits which are difficult to estimate (most corporate forecast of future profits are likely to be wrong/optimistic and short term) or calculating EBTDA which is a non-standard accounting cash flow number and subject to interpretation. This raises several questions. For example, assuming that an EBITDA estimate was available, to convert this to EBTDA (no "I"), do you deduct cash interest paid or stated P&L interest? Is EBITDA available? Is the interest deduction net or gross and what "other" charges may be grouped together in the interest number? Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating	

	to unquoted or not for profit entities. In relation to the approach to the risk margin, we do not see how this can be regarded as a simplification, as it is not clear what is intended in the absence of the "simplification". Sponsored IORPs do not have capital or a cost of capital, so there is no carry over from the calculation in Solvency II for insurers. So the "simplification" appears as just an arbitrary stand-alone loading with no rationale or justification. More generally, more thought needs to be given to the circumstances in which an IORP would be expected to revert to the original requirement in place of the simplification. In the context of Solvency II, all insurers can be expected to adopt a more complicated approach if it reduces their required capital and they can justify to their regulator that the approach is appropriate in their circumstances. Free standing IORPs competing for third party business can be expected to adopt a similar stance. However, sponsored IORPs may react differently. They may opt for a more complicated approach only where this increases the required capital, in order to require earlier or greater contributions from the sponsor that would not be payable under their existing governing documents. EIOPA should consider whether such a change in the balance of powers between IORPs and their sponsors, and indeed whether the differing motivations of some IORPs combined with options as to how the calculations are done will militate against any uniformity in outcomes.	
Q7.	Yes. A requirement to use up to date information seems very sensible, and indeed is a requirement under IFRS and US GAAP accounting standards. We note that different countries have very different mortality expectations and current industry standard mortality tables and so this will introduce some inconsistency.	
Q8.	It is generally clear but potentially cumbersome. We would suggest, as a pragmatic alternative, that a similar approach to that used for calculating obligations under IFRS and US GAAP accounting standards should be used. These require cash flows to be calculated using best estimate principles, and we see no specific reason why a different best estimate calculation should be used for the QIS (other than for the setting of the discount rate, and other assumptions like inflation and salary increases which EIOPA wants to fix rather than set equal to a best	

	estimate). As noted in the consultation document, the degree of expectation as to whether discretionary benefits will be granted and if so at what level covers a wide spectrum. The QIS wording does not help clarify the level of expectation above which allowance for discretionary benefits should be included. In most countries, accrued benefits are regarded as those benefits payable if a member were to leave service at the calculation date. This raises an important policy issue as to whether the accrued benefits should include allowance for future salary increases. In some countries, minimum funding measures do not take account of future salary increases, and Pension Protection Schemes will not link benefits to future salary increases. Given the importance of this point, please can EIOPA share its thinking on this issue. A lot of thinking has been done on this issue in the past by other organisations, not least the IASB in respect of whether allowance should be made for salary increases when calculating obligations for company accounting purposes. The guidance on stochastic projections is confusing to say the least. It reads more like an instruction to choose a representative set of scenarios to project, rather than describing how to define the probability space in which to carry out stochastic projections. Also, the wording about benign or adverse scenarios does not look to be consistent with the way these terms would be understood by an IORP. For an IORP, a benign scenario is one in which a high level of discretionary or conditional benefits can be afforded/provided.	
Q9.	It is particularly difficult to comment on this issue without knowing how the calculations might ultimately be used. In addition, it is not completely clear how benefits which can be reduced in the event of sponsor default are dealt with under the definition of 'pure conditional benefits'. If the sponsor defaults, there is not likely to be any additional funding so benefits may well be reduced, irrespective of whether the IORP documentation says so or not. Is this intended to mean that for every IORP the value placed on Technical Provisions can be reduced to make the balance sheet balance? If so, this would appear to make the whole exercise pointless.	

	We also have some difficulty in understanding what results allowing for a pension protection scheme would mean in practice, given that the purpose of the exercise is presumably to ensure (in some way) that pension schemes are adequately funded.	
Q10.	We can understand the rationale for the approach suggested, but believe that it is likely to be very difficult to put in to practice. Also, treating the sponsor covenant as if it was just another fixed term corporate bond and valuing the expected payments in the same way as for any other bond holding (albeit a very large single investment) does not seem to be very "holistic". It does not take into account the possibility that the sponsor value might be many times greater than the expected deficit payments, and build this value into the holistic balance sheet. Further, under the approach taken, the starting point is to assume that the projected cash flows from the sponsor to the IORP have a discounted value which is no more than the IORP deficit. The value of these payments is then reduced to allow for the possibility of default. This ensures that the value placed on the sponsor covenant will always be less than the IORP shortfall, however big and strong the sponsor. It is difficult to see the purpose of such a calculation which seems designed to result in an HBS which does not balance. The QIS also does not clarify how the approach is adopted where one Company sponsors more than one IORP, or where a (sponsored) IORP covers employees (or former employees) from a number of Companies. We accept the theory but it is likely to be difficult to put in to practice. In relation to employer support, inputs are non-standard or not readily available, and there is a significant risk that the standard simplifications and parameters proposed by EIOPA could lead to material mis-statements, for many different types of plan sponsor.	

	Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities.	
Q11.	A large number of sponsors will not have credit ratings. We do not agree that unrated sponsors should have a default rating in line with that of a B or CCC rated company. There is some logic in this for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who cannot choose their sponsor. Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities. We note that the probability of default in tables in HBS 6.15 and HBS.7.41 are inconsistent.	
Q12.	The employer covenant relies on a calculation of the maximum value of sponsor support calculated without default risk. This in turn relies on discounting future net profits which are difficult to estimate (most corporate forecast of future profits are likely to be wrong/optimistic	

and short term) or calculating EBTDA which is a non-standard accounting cash flow number and subject to interpretation. This raises several questions. For example, assuming that an EBITDA estimate was available, to convert this to EBTDA (no "I"), do you deduct cash interest paid or stated P&L interest? Is EBITDA available? Is the interest deduction net or gross and what "other" charges may be grouped together in the interest number?

Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities.

Although we prefer a fundamentally different approach as described above, we comment on your detailed proposals below.

We do not agree that unrated sponsors should have a default rating in line with that of a B or CCC rated company. There is some logic in this in the context of Solvency II for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who cannot choose their sponsor.

Credit rating providers also calculate market-implied credit ratings for certain listed entities. We recommend that IORPs are allowed to use a market-implied credit rating when a credit rating is not available.

Unrated employers will include non-profit institutions such as charities, universities, research organisations, hospitals, public service providers, trade unions, churches and partnerships. By

	treating these as unrated employers with a default probability of 4.175%, there is a risk that IORPs sponsored by these institutions will have significant balance sheet deficits and, depending on any future policy framework, may have to reduce the amount of money spent on their non-profit activities (eg charitable giving, philanthropic activity). EIOPA should consider whether it is appropriate to treat non-profit institutions in this way. It is not clear that a sensible value can be obtained by adding a balance sheet item to future cash flows. As an aside, it will be difficult to forecast future net profits or EBTDA (gross profits) as most companies do not disclose this, and EBTDA is not a widely used accounting or finance term, so this may need to be estimated which will increase the costs of doing the exercise. It is also not clear what is meant by net profit . We assume it is post-tax net profit or, in some cases, "other comprehensive income". Or do you mean Operating Earnings, or Amounts transferred to Retained Earnings (ie taking into account dividends paid) or Other Comprehensive Income. EIOPA should provide clarification on the net profit figure that should be used and why it believes this is the most appropriate definition. Also, since contributions are paid from cash flow, a better or alternative metric should be company cash flow (if a company is not generating cash it will generally not be able to pay pension contributions, unless if borrows or sells assets). Alternative measures could then be cash generated from operating activities, net cash inflow from operating activities, net increase in cash during the year, and such measures are normally found in published cash flow statements. Other measures, such as Free Cash Flow, could also be considered (but, again, this is a non-standard item and therefore needs careful explanation of how this should be derived would be required). For non-profit entitles, the concept of "earnings" does not exist. Alternative definitions will need to be used. For charities, some assets may be restricted assets so not available for pension funding purposes. Given the large number of non-profit organisations in the EEA, EIOPA should provide guidance on how non-profit entities should be treated.	

	It is not clear why EBTDA has been used as a definition, For large financial institutions, a large part of their earnings is interest income, so EBTDA can actually be a very large negative number. We are not sure whether this is EIOPA's intention, as this could penalise some of Europe's largest financial institutions. Likewise, some companies have significant borrowings, with certain creditors ranking ahead of the IORP (eg secured bank lenders). For these companies, EBTDA may overstate the potential amount that may be available to the pension fund. It is not clear why EIOPA have not specified EBITDA, which is at least more widely recognised, as an appropriate earnings measure. For the item "current recovery plan contributions" should these be adjusted to take account of what level of contributions might be payable based on a new valuation, under existing rules and methods, as at 30 December 2011? In some countries, eg the UK, existing recovery plan contributions may have been based on an actuarial valuation that is up to three years old (or in the process of being updated), so it would be inappropriate to compare deficit contributions under a new regime as at this date, without knowing what they would look like under the current regime as at the same date It is not clear why employer support is only assumed to continue for the average duration of the cash flows rather than until all cash flows are paid. Some of the other inputs also appear arbitrary. For example, why is 50% of expected future net profits used rather than 10% or 25%? Why 25% of EBTDA? This paper also gives the impression that EIOPA will allow deficits to be met over the average duration of the cash flows. We understand no decision has been made on this yet, and this will be a matter for the Commission, so it is important that the Commission has information which can help it assess the impact of different recovery plan lengths. Given the materiality of this item, we suggest IORPs also do calculations where "d" is doubled (ie it equals two times the value of the average duration), and we have allowed for this in our proposed approach set out in I.5.4 and PRO.4.17.	

	It is also not clear why 50% has been taken for the proportion of shareholder funds available for the IORP. In many countries, the level of support is not at the employer's or owner's discretion. We note that it many cases the simplified methodology will lead to inappropriate values (eg for private and non-profit companies, complex group structures, entities where future earnings will be different from the past eg the past includes exceptional or negative items, sponsors where the nature or size of business has changed). EIOPA should provide guidance on when the simplified methodology may not be suitable. For the purpose of the QIS, it is likely to be difficult to use anything different from the simplified methodology given the time available, so EIOPA should also comment on whether there is a risk that the output from the QIS could misstate sponsor support as a whole if most IORPs decide to use the simplified methodology for this exercise. For listed entities, it is not clear why the maximum amount of sponsor support should be different from the market capitalisation of the entity. It would be helpful if EIOPA could explain its thinking in this area, especially as this would then be a market-related value which would then be objective and broadly consistent with the methods used to value the assets and liabilities. Some of our clients have expressed concerns that the maximum amount of sponsor support could be commercially sensitive, especially it turns out to be different (either higher of lower) than actual market capitalisation. Some sponsors are concerned as to how this information will be used, and that it could then become available for third parties. This in turn could impact the price that investors may be willing to pay for shares in these sponsors, and reduce the attractiveness of the sponsor to external investors. This in turn could weaken the strength of the sponsor, and reduce the level of sponsor support for the IORP. EIOPA should provide some safeguards and reassurance as to how the information on the maximum sponsor support will be used and kept confidential. Without appropriate safeguards, this may mean that some IORPs will be reluctant to take part in the QIS (some of our large clients have already expressed this concern to us)	

	Overall we think the section for determining sponsor support needs a significant amount for work in order for it to be meaningful and interpreted appropriately and consistently for all different types of sponsors across all jurisdictions.	
Q13.	We agree it is appropriate to consider use of a counter-cyclical premium and a matching premium. This reflects the strong, long term nature of support to IORPs. We are concerned that, for many IORPs, they will not be able to benefit from a matching premium as assets and obligations are not ring-fenced. In order to use a matching premium, Annex 2 contains a number of conditions, including that the assigned portfolio of assets are ring-fenced and managed separately from the rest of the obligations. This appears to be overly restrictive. Many IORPs, especially in the UK, back part of their obligations (e.g. pensioners) with bonds and other assets with similar characteristics. However these are not separately ring-fenced within the IORP, and so it may not be possible to benefit from the matching premium based on the current drafting of Annex 2. We recommend that EIOPA considers further how this can be applied to IORPs in order that they can potentially benefit from this approach.	
Q14.	It is not clear how, if at all, IORPs take account of any planned changes to investment strategy in the future (eg strategies or stated policies where the proportion invested in fixed-income will increase over time, as part of de-risking activities). For a best estimate, we would suggest that the proposed assumption for non-fixed income investments is too low under current financial conditions. In addition, building a best estimate return for equities from the underlying bond yield is an outdated approach which does not work in the current environment, when bond yields are artificially depressed. It is not clear whether non fixed income assets should be 3% above the yield for AAA government bonds (so will vary by country) or should be 5.98% in all countries. We assume it should be	

	country specific? We think a more appropriate best estimate equity risk premium should be in the region of 4% to 5% (with a higher premium in the UK to allow for end 2011 valuation levels of equities in the UK relative to the Euro-zone). Different risk premiums should also be considered for other asset classes eg property, infrastructure, and private equity. The yields listed in (a) to (d) of the Level B discount rate section may not be appropriate if the duration or components of the underlying indices are different from those of the fixed-income assets of the IORP. It may be better to state that IORPs can set bond yields based on the actual bonds held by the IORP. IORPs are used to following this type of approach for IAS19 accounting and funding purposes. Any remaining part of the fixed income portfolio should have a yield based on the actual portfolio – it may not be appropriate to assume the yield equals the average yield of the rest of the portfolio. The assumed return for corporate bonds ought to allow for default risk (ie the expected return will be less than the underlying yield on these bonds given the risk of default) The level B discount rate should be calculated using a method consistent with the expected return on assets used for IAS19 and US GAAP. This should produce a 'neutral estimate' of the funding target – a target equally likely to under or overstate the level of assets like to be required to meet liabilities.	
Q15.	The outlook for inflation is likely to vary significantly between countries, and even between different measures of inflation within the same country. Setting a single rate across all countries is far too simplistic, particularly considering the huge complexities introduced elsewhere in the modelling. In practice inflation and salary growth expectations can vary significantly between countries and between economic scenarios under consideration. The assumptions should be market driven, based on observable market information on breakeven inflation expectations.	

	Also, there are different levels of inflation within each country. For example, in the UK, there is inflation measured with reference to the Consumers Price Index and that measured with reference to the Retail Prices Index. In the UK, we think a more appropriate inflation assumption (for Retail Price Index inflation) would be just above 3% at end 2011. This would then be consistent with what UK companies used as a best estimate inflation assumption for IAS19 accounting disclosures at end 2011. We also note that another critical assumption is pension increases, and revaluation of accrued benefits. For cash balance plans, a critical assumption is the annual rate of increase to cash balance accounts. These increases are often linked to inflation but are not the same as inflation (eg in the UK, there are maximum limits for some type of pension increases). EIOPA should provide additional guidance on how to set assumptions for increases to benefits. For salary increases, we think there is a strong argument to only allow for this in Level B, and for the Level A technical provisions to be based on accrued benefits only (since, in the event of plan termination, the link to salary increases would cease). If the purpose of Level A is come up with an estimate of the value of accrued benefits, then it is important to note that, in many countries, accrued benefits are often regarded as those payable based on salary at the calculation date; plus any increases that are required to be given by statute/regulations/scheme rules between date of leaving and the date benefits commence. As such, a number of countries do not require accrued benefits to include an allowance for future salary increases. The issue of whether to include an allowance for salary increases is one that has been discussed at length by accounting standard setters for many years, and EIOPA should at least acknowledge that it has considered this in formulating its proposals (and if it hasn't we recommend this issue is explored in more detail).	
Q16.	No. The description of the SCR and MCR provided does not appear to be sufficient to carry out calculations without making a significant number of assumptions about EIOPA's intentions. The	

	proposed approach outlined appears to be extremely complex . If EIOPA insist on requiring detailed SCR calculations, we suggest that simplified approaches are taken to calculate the impact of loss absorbing mechanisms, intangible asset risk, concentration risk and counterparty default risk. Please see our detailed responses to SCR.2.17, SCR, 4.1, SCR.5.109, and SCR.6.2.	
Q17.	Our main concern is that the level of detail is excessive, given that many of the calculations rely on major underlying assumptions. The modelling of the key risk, the level of future sponsor support, is based on some particularly heroic assumptions – it is not at all clear how the 50% assumption set out in SCR.6.17 has been derived. In addition, the relatively significant inflation and salary growth risks appear to be ignored, which does not appear consistent with the level of detail elsewhere. Please also see our comments to SCR.7.51 and SCR.7.71, in relation to specific concerns about the risks included/excluded in the benefits option risk module, and the parameters for the revision risk module.	
Q18.	It is not clear how the SCR is to be presented in the HBS. Do the loss absorbing mechanisms reduce the SCR, with this net amount shown, or are the SCR and the impact of the loss absorbing provisions to be shown gross in the HBS? It is also unclear whether the contribution to the SCR arising from the concentration risk and stressed credit risk in respect of the value placed on the sponsor covenant can be offset by an increase in the value placed on the sponsor covenant (subject to not exceeding the maximum sponsor covenant). It is not clear how the pension protection scheme would be reflected in the SCR where the it guarantees a lower level of benefit and only where the sponsor is not able to provide additional	

	support. It would appear that the pension protection scheme can only ever fill a proportion of any shortfall in funding ignoring the pension protection scheme. Please also see our comments to SCR.2.17. Calculating net Basic Solvency Capital Requirements massively increases the amount of calculations required, and overall complexity of the calculations. Given that no decision has been made on confidence level ,for the purpose of the QIS, why not simply set the adjustment to the maximum amounts defined in SCR.2.20? We note that the net SCR may not reduce to zero (eg counterparty default risk of plan sponsor), so EIOPA could state that the minimum value of the net Basic SCR equals the part of the SCR in respect of sponsor default risk.	
Q19.	It is difficult for us to answer this question, as EIOPA has not provided any justification or evidence to explain how the parameters for this module are derived. We would like EIOPA to explain where the parameters have come from (eg 4%, 0.45% etc) and why they are considered suitable for IORPs.	
Q20.	You have asked for comments on some of the specific simplifications provided in the document. In our response to this question, we also comment on some of the other simplifications for calculating SCR (including simplifications for market risk which is likely to be one of the biggest individual risks for many IORPs). Firstly, it is not clear how the risk adjustments have been derived. Please can you confirm that they represent 1 in 200 year outcomes in each case. Justification is also required. Market risk: The definition of "Other" is too wide. In particular, some investments such as private equity, hedge funds, infrastructure, and commodities have different risk/return characteristics to listed equities, and it is not appropriate to group them together for the purpose of calculating a risk level. This is particularly the case for IORPs who may have much larger exposure to these other types of investments than is the case for insurers We would prefer to see "other" broken down into different types and considered separately. Given the level of detail for calculating spread risk and concentration risks (which are likely to have much smaller values than market	

	risk), we think it is appropriate to consider further for equity risk given its overall significance. Market risk (infrastructure asset): In particular, many IORPs invest, or are considering investing, in infrastructure as they can give a more stable series of long-term cash flows than equity investments. Governments are also keen to have pension funds investing in long-term infrastructure investments. Given this, a proposed 40% risk charge on infrastructure investments appears penal and could discourage investment in this area (and therefore also impact overall European competitiveness by not supporting growth), so we would like to see a lower charge used for infrastructure (eg 25% in line with property or 30% in line with EEA equities). Spread-risk (see our comments on SCR.5.93 and SCR.5.94): Given recent bail-outs and credit downgrades in a number of EEA countries , we do not think it is appropriate to say that no capital requirement should apply for bonds issued by EEA states. We think the same considerations should be made as for non-EEA states in SCR.5.94; so there is a risk factor for any EEA government bond issued by a country with a credit rating of A or below. Also it is not clear why the factors for unrated governments and central banks are better than those rated B or lower. Surely the lack of a rating would suggest concerns about the credit quality of the government or bank concerned? Collateral: We have not studied this section in detail, but we welcome simplifications to calculate collateral. At this stage we are unable to say whether we consider these to be appropriate simplifications for the risks concerned. Mortality, Longevity & Catastrophe The proposed simplifications appear relatively straightforward, but it could be possible for EIOPA to provide an even simpler simplification; and set the shock equal to a % of liabilities (with different percentages for pensioners and non-pensioners depending on the type of benefit). Given the long-term nature of these risks, it is unclear how the actual parameters have been chosen for the 99.5% confidence level (eg a 15% increase in mortality rates for the mortality risk charge; a 20% decrease in mortality rates for the longevity risk charge). Please could EIOPA explain its thinking.	

	Benefit option risk: It is not entirely clear what risks are supposed to be included in this module? What about the risk of conversion terms changing in the future; what about the risk of adverse demographic experience eg turnover, early retirement. Given the insurance-focused nature of the wording, it is not easy to work out what risks EIOPA want to have captured in this module? What about salary increases being higher than expected? What about pension increases being higher than expected? What about members having a greater number of beneficiaries than expected (so greater levels of benefits payable upon death). In general, there is a danger of the approach adopted being disproportionate for IORPs as many of the benefit options are broadly cost-neutral. Revision risk: The proposed simplification may not be appropriate or sufficient depending on the risks that this is supposed to cover. EIOPA should also clarify whether it means "benefits payable" instead of "annuities payable", as annuities seems to be insurance-specific. It is difficult to be certain which annuities/benefits might be subject to changes in the "legal environment" given that the law can be changes in unexpected ways. This aspect ought to be clarified. For example, the possible revision of the pensions directive is itself an uncertainty. In the UK, we have potential uncertainty surrounding GMP equalisation, application of TUPE to early retirement and pensions; application of age-discrimination to IORPs following the Test-Achats Case in 2011? These are all linked to the legal environment, and is EIOPA saying that the capital requirement for this risk is simply 3% of annuities payable. EIOPA should clarify where the 3% has come from, and whether it is considered to be appropriate to all types of benefits in all member states? Concentration risk: We note that, where IORPs have significant equity allocations, they may well have holdings in individual companies that are above the concentration threshold. These holdings are, in many cases, likely to be holdings in the largest companies in their member state, as such companies will form a large proportion of local equity indices. This means IORPs may also be penalised even if they invest passively in index-tracking portfolios. We think the proposed thresholds of 1.5%/3% could penalise investment in some of Europe's largest companies (many of which have a geographically diverse business). It is not clear if EIOPA has considered this point, but we do not think EIOPA's intention should be to discourage investment in Europe's largest	

	companies. It also seems inappropriate to have a low threshold for holdings in large European companies, and a 10% threshold in a single property (see SCR.5.124) Given this, we think that the concentration thresholds should be reviewed, or set so they at least based on the percentage exposure in underlying stock market indices, or set so they are the same as the threshold for individual properties in SCR.5.125 Intangible asset risk: It is unclear why EIOPA thinks intangible asset risk is an issue for IORPs. We note that in EIOPA's Final Report on QIS5 for insurers, intangible risk was 0% (ie nil!) of the overall Basic SCR, so why is EIOPA asking IORPs to consider this at this stage? Overall, despite the proposed simplifications, it will take a significant amount of work to calculate the SCR for each IORP, and many pension liability risks (with the possible exception of the longevity risk) will be small relative to the market risks. Given no decision has been made on confidence levels, we offer a further simplification, to set the Pension Liability risk to a % of Technical Provisions. Initial modelling for some of our clients in the UK indicates a suitable % could be around 10%. For IORPs that do not have longevity risk, the % could be lower. Whilst the purpose of the calculations remains unclear, we believe it should be possible to significantly reduce the number of calculations and provide more information for policy decisions. We would be pleased to share our views on this with you, once it becomes clearer how the results of the QIS will be used in practice.	
Q21.	We do not agree that the case has been made for counterparty risk adjustments, other than in respect of non-collateralised swaps and other contracts of insurance.	
Q22.	It is not entirely clear what risks are supposed to be included in the Benefits Options module. What about the risk of conversion terms changing in the future; what about the risk of adverse demographic experience e.g. turnover, early retirement. Given the insurance-focused nature of the wording, it is not easy to work out what risks EIOPA want to have captured in this module? What about salary increases being higher than expected? What about pension increases being higher than expected? What about members having a greater number of beneficiaries than	

	expected (so greater levels of benefits payable upon death). In general, there is a danger of the approach adopted being disproportionate for IORPs as many of the benefit options are broadly cost-neutral.	
Q23.	The descriptions appear clear and understandable. In practice, the complexity of the underlying calculations will depend on the nature of any financial and insurance mitigation in place for a given IORP. We have yet to carry out detailed calculations in this area so cannot comment on whether they are appropriate. However, given that insurers have carried out similar calculations for Solvency II purposes under QIS5, we hope that the calculation requirements specified for IORPs take account of feedback from the insurance sector. It would be useful to EIOPA to comment on whether this is the case.	
I.1.1.		
I.1.2.		
I.1.3.	We note that not even the next stage of the process (the QIS) will assess the impact of the advice on scope and definitions, role of the supervisor, governance and disclosure to plan members. It is almost impossible to comment sensibly on the methodology without knowing how the proposed approach might ultimately be used.	
I.1.4.		
I.1.5.		
I.2.1.		
I.2.2.		
I.2.3.		
I.2.4.		
I.2.5.		
I.2.6.		
I.3.1.		

Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
I.3.2.		
I.4.1.		
I.4.2.		
I.4.3.		
I.4.4.		
I.4.5.		
I.4.6.		
I.4.7.		
I.4.8.		
I.4.9.		
I.4.10.		
I.4.11.		
I.4.12.		
I.4.13.		
I.4.14.		
I.4.15.		
I.4.16.		
I.4.17.		
I.4.18.		
I.4.19.		
I.4.20.		
I.4.21.		
I.4.22.		
I.5.1.		

I.5.2.		
I.5.3.		
I.5.4.	It is unclear how the information produced will be used and therefore difficult to comment on the proposals. If the intention is to use the results to decide on a suitable target for funding, a significantly shortened list of options is likely to be more appropriate.	[
I.5.5.	Given the methodology you have proposed to calculate the risk-free yield curve, it is a shame that the consultation document did not contain the estimates of the basic risk-free interest curve at the end 2011 for the currencies mentioned. Please could you make this available to stakeholders as soon as possible.	
I.5.6.		
I.5.7.	For a best estimate, we would suggest that the proposed assumption for non-fixed income investments is too low under current financial conditions. In addition, building a best estimate return for equities from the underlying gilt yield is an outdated approach which does not work in the current environment.	
I.5.8.	We are surprised about the reference to 2,916 combinations. It is unlikely that the EIOPA will review the results of 2,916 sets of calculations, and this reference suggests that more importance is being given to the number of calculations rather than whether the nature of the calculations themselves, and how they will drive policy intentions. Given the alternative options we suggest in this paper, there will no doubt be even more combinations, but the important point is that the right options are considered and then analysed appropriately. The idea of 2,916 combinations, yet the absence of suitably granular data, will seriously damage the credibility of EIOPA amongst pensions professionals.	
I.6.1.		
I.6.2.		

I.6.3.		
I.7.1.	There are a number of member states that have defined benefit IORPS in their countries that are not participating in the QIS so far. In some countries, like Austria, Norway, Cyprus and Italy, the level of assets that are in defined benefit IORPs may be lower than in other countries, but may well be material to the plan sponsors of the IORPs. For the QIS to be effective, we recommend that all member states that have defined benefit IORPS in their country participate, in order for the interests of plan sponsors and IORPs in these locations to be taken into account.	
I.7.2.		
I.7.3.		
I.7.4.		
I.7.5.		
I.8.1.		
I.8.2.	EIOPA should provide details on how the capital surplus under the existing national regimes should be calculated. Many IORPs will not have calculated assets and liabilities under their local funding regimes at the effective date of the QIS calculations (i.e. 30 December 2011), so EIOPA should provide guidance on how IORPs should calculate these items to ensure consistency. This also means further calculations will need to be carried out to assess the existing position, which will increase the costs and limit the time available to carry out rest of the QIS.	
I.8.3.		
I.8.4.		
I.8.5.		
I.8.6.		
I.9.1.		

I.9.2.		
I.9.3.		
I.10.1.		
I.10.2.	EIOPA has stated that the success of the QIS crucially depends on the quality of the technical specifications and the support of the occupational pensions sector. We have grave concerns that, as things currently stand, neither condition is met, and this means EIOPA has a lot of work to do in order to ensure the QIS is successful and meaningful.	
I.10.3.	We do not think it is possible to accurately calculate all items on the Holistic Balance Sheet and the Solvency Capital Requirement at appropriate costs within the expected timeframe.	
I.10.4		
I.11.1	Given the large number of comments that we have made, we would hope that EIOPA is able to issue an updated version for at least one more round of consultation before going ahead with the QIS. The occupational pensions sector needs to have the confidence that the final parameters will be appropriate and, without significant change to the existing parameters and further consultation, EIOPA runs the risk that the final parameters will be heavily criticised and that they are still not suitable for the QIS. We are very concerned that this could damage the credibility and reputation of EIOPA within the occupational pensions sector.	
HBS.1.1.		
HBS.2.1.		
HBS.2.2.		
HBS.2.3.		
HBS.2.4.		

HBS.2.5.		
HBS.2.6.		
HBS.2.7.		
HBS.2.8.		
HBS.3.1.		
HBS.3.2.		
HBS.3.3.		
HBS.3.4.	Taking a weighted average of all possible scenarios appears to be an overly complicated approach	
HBS.3.5.		
HBS.3.6.		
HBS.3.7.		
HBS.3.8.		
HBS.3.9.		
HBS.3.10.		
HBS.3.11.		
HBS.3.12.		
HBS.3.13.		
HBS.3.14.		
HBS.3.15.		
HBS.3.16.		
HBS.3.17.		
HBS.3.18.		
HBS.3.19.		
HBS.3.20.	Varying take up of options to reflect different future financial conditions will be overly complicated. In many case the options might be broadly cost neutral.	

HBS.3.21.		
HBS.3.22.		
HBS.3.23.		
HBS.3.24.		
HBS.3.25.		
HBS.3.26.		
HBS.3.27.		
HBS.3.28.		
HBS.3.29.		
HBS.4.1.	Many IORPs calculate "best estimate" liabilities for their sponsor's accounts (e.g. under International, US or local accounting standards). These standards provide well defined methodologies for determining best estimate assumptions and appropriate actuarial assumptions. We are surprised that there is no reference to IAS19 or US GAAP in this section. Please can you confirm if you have considered the wording in IAS19 or US GAAP. To reduce the costs of the QIS, it would be helpful if you could confirm that assumptions and methods used for these accounting standards will be acceptable for the purpose of the QIS. There will of course be some differences e.g. calculation of the discount rate, salary increases and inflation, but for most other assumptions and methods we see no reasons why the best estimate for the QIS should be different from a best estimate for accounting.	
HBS.4.2.		
HBS.4.3.		
HBS.4.4.		
HBS.4.5.		
HBS.4.6.		

HBS.4.7.		
HBS.4.8.		
HBS.4.9.		
HBS.4.10.		
HBS.4.11.		
HBS.4.12.	We do not agree that any allowance for future service should be included (and indeed it is not a requirement for IAS19 or US GAAP "best estimate" accounting calculations) .This makes sense for insurers where allowance for future "accrual" is balanced by future premiums from the policyholder. It does not make sense for IORPs where the contributions will come largely from the sponsor, and where the sponsor can't be expected to have the cash backing those contributions yet because the employees haven't done the work yet that earns the income to pay for them. If you decide to include the allowance for future service, then expected future contributions to cover future service benefits should also be allowed for when determining sponsor support.	
HBS.4.13.	In most countries, accrued benefits are regarded as those benefits payable if a member were to leave service at the calculation date. This raises an important policy issue as to whether the accrued benefits should include allowance for future salary increases. In some countries, minimum funding measures do not take account of future salary increases, and Pension Protection Schemes will not link benefits to future salary increases. Given the importance of this point, please can EIOPA share its thinking on this issue . A lot of thinking has been done on this issue in the past by other organisations, not least the IASB in respect of whether allowance should be made for salary increases when calculating obligations for company accounting purposes.	
HBS.4.14.		
HBS.4.15.		
HBS.4.16.		

HBS.4.17.		
HBS.4.18.		
HBS.4.19.		
HBS.4.20.		
HBS.4.21.		
HBS.4.22.		
HBS.4.23.	The subject of how to allow for conditional/discretionary benefits is also one that has been considered in detail for company accounting purposes. Under both International and US GAAP accounting requirements, plan sponsors need to include allowance for "constructive benefit obligations". These are defined under IAS 19 (for example) as follows: **"An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees."** Given that these benefits are already included in best estimate accounting calculations, EIOPA should state its view on whether it is appropriate to include them in the calculation of the technical provision, and whether they should be regarded as conditional, discretionary or something else.	
HBS.4.24.		
HBS.4.25.	It is not completely clear how benefits which can be reduced in the event of sponsor default are dealt with under this definition. If the sponsor defaults, there is not likely to be any additional funding so benefits may well be reduced, irrespective of whether the IORP documentation says so or not.	

HBS.4.26.		
HBS.4.27.		
HBS.4.28.		
HBS.4.29.		
HBS.4.30.		
HBS.4.31.		
HBS.4.32.		
HBS.4.33.		
HBS.4.34.	We would suggest the question of whether to allow for benefits with an element of discretion should left to the discretion of the body with the discretion. EIOPA should also state its view on whether benefits that give rise to a "constructive obligation" for accounting purposes should be included in the calculation of technical provisions.	
HBS.4.35.		
HBS.4.36.		
HBS.4.37.	How does the option to use a deterministic approach tie in with the requirement at paragraphs HBS.3.4 and HBS.3.20?	
HBS.4.38.		
HBS.4.39.		
HBS.4.40.		
HBS.4.41.		
HBS.4.42.		
HBS.4.43.		
HBS.4.44.		
HBS.4.45.		
HBS.4.46.		

HBS.4.47.	It is not clear what "calculated and shown separately from the rest of the best estimate" means. Is this part of the best estimate or not? Depending on the answer, we also need clarity on whether this is added to the best estimate, deducted from it, or not reflected in it.	
HBS.4.48.	The approach to a) and b) do not appear to be consistent. Consider a scenario in which a pension protection scheme provided a very small level of protection. In this case a) and b) should have very similar levels of protection but the values calculated could be significantly different under the proposed approaches.	
HBS.4.49.	It is not completely clear whether benefits which might be reduced on insolvency are conditional benefits or Ex post benefit reductions. It is also not clear whether the best estimate of technical provisions should reduce to the level of financial assets in those member states where IORPs can withdraw their support from the IROP at any time and effectively walk away from their liabilities; or where there is no legal obligation for plan sponsors to fund the pension plan.	.
HBS.4.50.		
HBS.4.51.		
HBS.4.52.		
HBS.4.53.		
HBS.4.54.		
HBS.4.55.		
HBS.4.56.		
HBS.4.57.	It is not clear how the deterministic approach ties in with the requirement at paragraphs HBS.3.4 and HBS.3.20	
HBS.4.58.		
HBS.4.59.		
HBS.4.60.		
HBS.4.61.		

HBS.5.1.	Guidance should be given as to what is meant as the "amount that an IORP would be expected to require in order to take over and meet the pension obligation". We assume this does not mean the amount needed to secure the obligation with an insurance company, but rather the expected amount needed to that there is a reasonable expectation that the sponsor does not need to pay any additional amounts into the IORP (i.e. the IORP can be regarded as "self sufficient", which is a term frequently used in the UK at least). If it is the latter, EIOPA should comment on what they consider to be a reasonable expectation (e.g. 50% certain, 75% certain, 90% certain etc).	
HBS.5.2.	Where has the 8% come from? It is not clear that this is appropriate for IORPs. Please can EIOPA explain its thinking.	
HBS.5.3.	Please include details on how this can be calculated in accordance to Solvency II so that we have a self-contained document (and do not need to refer to other documents that are written for insurers). Also we do not see how IORPs can judge whether the proposed simplification is appropriate until more specific guidance is provided on what it is supposed to cover. Member states are also likely to need guidance on how to interpret the last requirement (especially to ensure a consistent approach across member states).	
HBS.5.4.		
HBS.5.5.		
HBS.6.1.		
HBS.6.2.		
HBS.6.3.	There is no standard nomenclature, definition or valuation methodology for the "wealth of the sponsor" in corporate or actuarial finance.	
HBS.6.4.		
HBS.6.5.	Where a group/parent company guarantee is provided, we think it is more appropriate (and indeed easier) to allow for this when calculating the default probability for the sponsor support item rather than showing this as a separate asset. A large number of IORPS in the UK have	

	parent/group guarantees and, if EIOPA require these be valued as separate contingent assets, will increase the overall complexity of the calculations but with no obvious benefit to be gained by doing so since the guarantees will still be allowed for in the Holistic Balance Sheet asset.	
HBS.6.6.		
HBS.6.7.		
HBS.6.8.	In countries where it is legally possible for sponsors to walk away from the IORP pension liabilities, does this mean the support should be valued as zero?	
HBS.6.9.		
HBS.6.10.		
HBS.6.11.		
HBS.6.12.		
HBS.6.13.		
HBS.6.14.	We are surprised that there are several paragraphs in this section concerning the most appropriate default probabilities (i.e. HBS.7.26 to HBS 7.31) to use, whereas in the section for sponsor support very little explanation is given (cf HBS.6.15), even though we expect default probabilities to be far more material to the calculation of sponsor support.	
HBS.6.15.	The probabilities of default listed are broadly similar to S&P long term average rates per category (see S&P's 2011 Annual Global Corporate Default Study And Rating Transitions: .http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245330814766 . There are some small differences though, so it would be helpful if EIOPA could provide some information on how they have determined these default probabilities. However, we note in particular that the proposed default rate for CCC or lower rated sponsors is 4.175% whereas the S&P long-term average is 26.82%. Although a lower assumption will increase the Holistic Balance Sheets asset for CCC or lower rated sponsors and obviously be viewed positively by such sponsors, we question whether this will provide EIOPA and the	

	Commission with information that accurately assesses the risks associated with such sponsors, and could distort the findings of the QIS. However, in most cases the these probability of defaults have a standard deviation that is larger than the average itself (eg S&P have BB at a 1 year average default rate of 0.89% with a standard deviation of 1.05%, whereas the standard deviation for CCC or lower bonds is 12.68%, compared to EIOPA's suggested probability of 4.175%). We also think the number of bands are too low, and there will be significant changes in the calculated items depending on whether a sponsor is at a top of one band or the bottom of another. EEIOPA should consider providing a wider range of bands (eg A+, A- etc) in order to improve the accuracy of the calculations (especially for those rated BBB or below) – credit rating agencies use a wider range of bands than those specified here.	
HBS.6.16.	We do not agree that unrated sponsors should have a default rating in line with that of a B rated company. There is some logic in this in the context of Solvency II for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who cannot choose their sponsor. Credit rating providers also calculate market-implied credit ratings for certain listed entities. We recommend that IORPs are allowed to use a market-implied credit rating when a credit rating is not available. Unrated employers will include non-profit institutions such as charities, universities, research organisations, hospitals, public service providers, trade unions, churches and partnerships. By treating these as unrated employers with a default probability of 4.175%, there is a risk that IORPs sponsored by these institutions will have significant balance sheet deficits and, depending on any future policy framework, may have reduce the amount of money spend on their non-profit activities (eg charitable giving, philanthropic activity). EIOPA should consider whether it is appropriate to treat non-profit institutions in this way.	

HBS.6.17.	The recovery rate may need to vary by country. For Germany 100% may be appropriate, including allowance for PSV. For the UK, 50% seems very high based on actual experience. We note that EIOPA is investigating this further, and we would be pleased to comment on its findings.	
HBS.6.18.		
HBS.6.19.		
HBS.6.20.	In cases where sponsors can walk away from their pension liabilities, it is not clear whether sponsor support should be regarded as 'limited conditional sponsor support' or should not be included at all.	
HBS.6.21.	EIOPA should clarify the treatment of contributions in respect of future accrual where future service benefits are included in the technical provisions under HBS.4.14. If future service benefits are included in the liabilities, then it is appropriate to allow for contributions in respect of the benefits when calculating the assets.	
HBS.6.22.		
HBS.6.23.		
HBS.6.24.	Allowing self estimation would appear to provide scope for manipulation of the results and this would be particularly important if a similar approach was adopted in practice, rather than just for the QIS. However, we note that it many cases the standard methodology will lead to inappropriate values (eg for private and non-profit companies, complex group structures, entities where future earnings will be different from the past eg the past includes exceptional or negative items, sponsors where the nature or size of business has changed). EIOPA should provide guidance on when the standard methodology may not be suitable For the purpose of the QIS, it is likely to be difficult to use anything different from the standard methodology given the time available, so EIOPA should comment on whether there is a risk that	

	the output from the QIS could misstate sponsor support as a whole if most IORPs decide to use the standard methodology for this exercise. It could be argued that as the standard methodology builds in allowance for cash contributions from the sponsor to the IORP which are different to those expected in practice, then every IORP should conclude that the standard methodology gives an inappropriate value. We suspect this is not what EIOPA intends, and suggest that EIOPA reviews the instructions here.	
HBS.6.25.		
HBS.6.26.		
HBS.6.27.		
HBS.6.28.	For listed entities, it is not clear why the maximum amount of sponsor support should be different from the market capitalisation of the entity. It would be helpful if EIOPA could explain its thinking in this area, especially as this would then be a market-related value which would then be consistent with the methods used to value the assets and liabilities. Some of our clients have expressed concerns that the maximum amount of sponsor support could be commercially sensitive, especially it turns out to be different (either higher of lower) than actual market capitalisation. Some sponsors are concerned as to how this information will be used, and that it could then become available for third parties. This in turn could impact the price that investors may be willing to pay for shares in these sponsors, and reduce the attractiveness of the sponsor to external investors. This in turn could weaken the strength of the sponsor, and reduce the level of sponsor support for the IORP. EIOPA should provide some safeguards and reassurance as to how the information on the maximum sponsor support will be used in order and kept confidential. Without appropriate safeguards, this may mean that some IORPs will be reluctant to take part in the QIS (some of our large clients have already expressed this concern to us).	

HBS.6.29.	Presumably you mean shareholder funds when you refer to excess assets over liabilities (for consistency with the wording in HBS.6.37)? Please clarify. In some cases it may not be easy to work out the liabilities of the sponsor towards the IORP. This will depend on how the sponsor has broken down information in its accounts. Some sponsors may not even include a liability, especially entities in a group company that participate in a multi-employer plan. It is not obvious why current recovery plan contributions are netted off (where relevant) from future profits or earnings in HBS.6.30 but there is no consideration as to whether they should be netted off from current wealth in HBS.6.29.	
HBS.6.30.	It is not clear that a sensible value can be obtained by adding a balance sheet item to future cash flows. As an aside, it will be difficult to forecast future net profits or EBTDA (gross profits) as most companies do not disclose this, and EBTDA is not a widely used term, so this may need to be estimated which will increase the costs of doing the exercise. It is also not clear what is meant by net profit . We assume it is post-tax net profit or, in some cases, "other comprehensive income". Or do you mean Operating Earnings, or Amounts transferred to Retained Earnings (ie taking into account dividends paid) or Other Comprehensive Income. EIOPA should provide clarification on the net profit figure that should be used and why it believes this is the most appropriate definition. Also, since contributions are paid from cash flow, a better or alternative metric should be company cash flow (if a company is not generating cash it will generally not be able to pay pension contributions, unless if borrows or sells assets). Alternative measures could then be cash generated from operating activities, net cash inflow from operating activities, net increase in cash during the year, and such measures are normally found in published cash flow statements. Other measures, such as Free Cash Flow, could also be considered.	

	For non-profit entitles, the concept of "earnings" does not exist. Alternative definitions will need to be used. For charities, some assets may be restricted assets so not available for pension funding purposes. Given the large number of non-profit organisations in the EEA, EIOPA should provide guidance on how non-profit entities should be treated. It is not clear why EBTDA has been used as a definition, For large financial institutions, a large part of their earnings is interest income, so EBTDA can actually be a very large negative number. We are not sure whether this is EIOPA's intention, as this could penalise some of Europe's largest financial institutions. Since it is possible for future earnings to be negative, then the difference between items II and III should then be set to zero for the purpose of the calculation (ie the minimum value then equals current recovery plan contributions) Likewise, some companies have significant borrowings, with certain creditors ranking ahead of the IORP (eg corporate bond holders). For these companies, EBTDA may overstate the potential amount that may be available to the pension fund. It is not clear why EIOPA have not specified EBITDA as an appropriate earnings measure. As there is an interest component to pension costs, some companies will include this in their interest expense whereas some may include it in their operating expense. For sponsors of large IORPS, the line in which pension net interest expense is recorded could then have a significant impact on the calculated sponsor wealth. For consistency with the balance sheet item, it would be appropriate to strip pension related items out of the earnings component (eg so EBITDAP or EBTDAP should be used instead of EBITDA or EBTDA). We note however that this will make the calculations more complex (and indeed in some cases it may not be possible to make this adjustment if the corresponding amounts are not disclosed in the accounts). For the item "current recovery plan contributions" should these be adjusted to take account of	

	what level of contributions might be payable based on a new valuation, under existing rules and methods, as at 30 December 2011? In some countries, eg the UK, existing recovery plan contributions may have been based on an actuarial valuation that is up to three years old (or in the process of being updated), so it would be inappropriate to compare deficit contributions under a new regime as at this date, without knowing what they would look like under the current regime as at the same date. Overall we think this section needs a significant amount for work in order for it to be meaningful and interpreted appropriately for all different types of sponsors.	
HBS.6.31.	For many sponsors, we would expect future earnings forecasts to be very different from historic earnings. The standard approach suggested by EIOPA is to assume future earnings will be in line with historic earnings adjusted for inflation. We think this is a massive over-simplification, especially given the potential lack of uncertainty around any forward business-looking forecast over any significant period.	
HBS.6.32.	As a simplification, why not set the value to market capitalisation where this exists.	
HBS.6.33.		
HBS.6.34.		
HBS.6.35.	It would be inappropriate to gross-up for all employers in multi-employer funds where liabilities and assets are ringfenced for individual employers.	
HBS.6.36.	It is not clear why employer support is only assumed to continue for the average duration of the cash flows rather than until all cash flows are paid. Some of the other inputs also appear arbitrary. For example, why is 50% of expected future net profits used rather than 10% or 25%? Why 25% of EBTDA? It is also giving the impression that EIOPA will allow deficits to be met over the average duration	

	of the cash flows. We understand no decision has been made on this yet, and this will be a matter for the Commission, so it is important that the Commission has information which can help it assess the impact of different recovery plan lengths. Given the materiality of this item, we suggest IORPs also do calculations where d is doubled (ie it equals two times the value of the average duration) Further clarification should be given on what is meant by net profit (see comments to HBS.6.30) It is not clear why (ii) is based on future net profit, whereas, in (iii) EBTDA is based on a three year average of EBTDA. Should the net profit for (ii) also be based on a three year average? Also, what happens if any of the earnings periods in the last three years includes negative or one-off exceptional items (which could be positive or negative). Should these be ignored, or adjusted? What inflation figure is proposed for the adjustment? Is it price inflation, or some other measure of earnings inflation (eg dividend growth)?	
HBS.6.37.	The most recent shareholder funds may not be comparable across countries. A key factor will be whether goodwill is on or off balance sheet. It is also not clear why 50% has been taken for the proportion of shareholder funds available for the IORP. In many countries, the level of support is not at the employer's or owner's discretion. Where has the 50% figure come from? Shouldn't it be 100% especially in countries where sponsors have a legal responsibility to fund deficits? For y (value of liabilities already accounted for in sponsor accounts), EIOPA should add clarity on whether this is on a pre-tax or post-tax basis?	
HBS.6.38.		

HBS.6.39.	For the maximum value of sponsor support taking account of credit risk, we think the term next to the summation sign in the second part of the formula should be $i^{t-0.5}$, and not $i^{t+0.5}$.	
HBS.6.40.	**Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise.**	
HBS.6.41.		
HBS.6.42.	Please provide supporting information on the figures for "relative standard deviation of assets", "relative standard deviation of technical provisions", "expected correlation between assets and liabilities". The default values appear to have been plucked out of the air, so, given the significance of this item, it is important the pensions industry is able to understand the rationale behind these figures, and when they may be inappropriate for particular IORPs. We are surprised that the recovery for the IORP on sponsor default has been set to be 50% of the IORP shortfall, irrespective of the actual or projected sponsor asset value, whereas the annual sponsor support absent sponsor default has been limited by reference to sponsor value.	
HBS.6.43.	**Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise. Please note that, in the time available and given that there is no spreadsheet, we have not been able to review this formula. We may want to make comments once we have seen the EIOPA spreadsheet.**	
HBS.6.44.		
HBS.6.45.		
HBS.6.46.		
HBS.6.47.		
HBS.6.48.	The discount factor i ought to be term-dependent Also the annual probability of default could also be term-dependent (as is the case in HBS.7.41 for valuing recoverables from insurance contracts).	

	We are surprised that the recovery for the IORP on sponsor default has been set to be 50% of the IORP shortfall, irrespective of the actual or projected sponsor asset value, whereas the annual sponsor support absent sponsor default has been limited by reference to sponsor value.	
HBS.6.49.	**Please can we see the spreadsheets – it is a shame these were not produced in time for the consultation exercise. Please note that, in the time available and given that there is no spreadsheet, we have not been able to review this formula. We may want to make comments once we have seen the EIOPA spreadsheet.**	
HBS.6.50.		
HBS.6.51.		
HBS.6.52.		
HBS.6.53.	We think the total value of sponsor support (SSFV) should be restricted so that it cannot exceed the Maximum Value (Mss). This is not entirely obvious from the way it is currently drafted. The absence of any limitation on the amount recoverable by reference to sponsor value can lead to the total here exceeding the Maximum Value (Mss).	
HBS.6.54.		
HBS.6.55.		
HBS.6.56.		
HBS.6.57.		
HBS.6.58.		
HBS.6.59.		
HBS.6.60.		
HBS.6.61.		
HBS.6.62.		
HBS.6.63.		

HBS.6.64.		
HBS.6.65.		
HBS.6.66.		
HBS.6.67.		
HBS.6.68.		
HBS.6.69.		
HBS.6.70.		
HBS.6.71.		
HBS.6.72.		
HBS.6.73.		
HBS.6.74.	Deriving a "suitable approximation" for the coverage rate of the pension protection scheme, reflecting the difference between possible future differences between the value of protection benefits and the value of scheme assets could be extremely complicated. It is likely to be scheme specific (especially in the UK, where there is a cap on benefits payable from the Pension Protection Fund and different levels of pension increases are payable).	
HBS.6.75.		
HBS.6.76.		
HBS.6.77.	The formula for PPF_{FV} looks at the difference between the PPS liabilities and assets at each date, and then reduces the difference to allow for amounts recovered from the sponsor (REC_t) . We think that the projected assets also need to allow for contributions paid into the scheme up to the point of default, so should also be reduced by the summation of cash flows item included at the end of the REC_t definition. If this change is not made, the value of the Pension Protection Scheme is then overstated. It is not entirely clear why the cash flow items in the formula is based on the annual payments that the sponsor would need to make based on the Level A Technical Provisions. Without a requirement to pay these contributions into the fund, this is mean the calculations are being	

	based on a "notional contribution" level rather than an "actual contribution" level, and so over-state the expected level of assets in the IORP upon default. Surely it would be more appropriate to base the cash flows for this calculation using the recovery plan contributions used in the calculation of Maximum Sponsor Support in HBS.6.36?	
HBS.6.78.		
HBS.6.79.	This simplification appears attractive, given the complexity of allowing for the pension protection scheme explicitly. However, it is very difficult to know how to derive the appropriate adjustment unless the pension protection scheme protects benefits in full.	
HBS.6.80.		
HBS.6.81.		
HBS.6.82.		
HBS.6.83.		
HBS.6.84.		
HBS.6.85.		
HBS.6.86.		
HBS.6.87.		
HBS.6.88.		
HBS.6.89.		
HBS.6.90.		
HBS.7.1.		
HBS.7.2.		
HBS.7.3.		
HBS.7.4.		
HBS.7.5.		
HBS.7.6.		

HBS.7.7.		
HBS.7.8.		
HBS.7.9.		
HBS.7.10.		
HBS.7.11.		
HBS.7.12.		
HBS.7.13.		
HBS.7.14.		
HBS.7.15.		
HBS.7.16.		
HBS.7.17.		
HBS.7.18.		
HBS.7.19.		
HBS.7.20.		
HBS.7.21.		
HBS.7.22.		
HBS.7.23.		
HBS.7.24.		
HBS.7.25.		
HBS.7.26.	We are surprised that there are several paragraphs in this section concerning the most appropriate default probabilities (ie HBS.7.26 to HBS 7.31) to use, whereas in the section for sponsor support very little explanation is given (cf HBS.6.15), even though we expect default probabilities to be far more material to the calculation of sponsor support.	
HBS.7.27.		
HBS.7.28.		

HBS.7.29.		
HBS.7.30.		
HBS.7.31.		
HBS.7.32.		
HBS.7.33.		
HBS.7.34.		
HBS.7.35.		
HBS.7.36.		
HBS.7.37.		
HBS.7.38.		
HBS.7.39.		
HBS.7.40.		
HBS.7.41.	As noted above, the probability of defaults in HBS.6.15 are not consistent with those quoted in HBS.7.41.	
HBS.7.42.		
HBS.8.1.		
HBS.8.2.		
HBS.8.3.		
HBS.8.4.		
HBS.8.5.		
HBS.8.6.		
HBS.8.7.	What is the source of the data for the swap curves? Will it be curves produced by individual banks (which will vary by bank), or some composite curve (eg Bloomberg; or a curve produced by EIOPA)? What is the 10bp credit risk adjustment for? Given that, elsewhere in the document, there is no	

	risk charge in respect of government bonds issued by EEA member states, it is not clear why an adjustment is being made here. EIOPA states the last liquid point for Euro-zone is after 20 years. However, we note that De Nederlandsche Bank (DNB) publishes interest rate term structure (zero coupon swap rate) curves for durations of up to 60 years, and that this curve is constructed using European swap rates for up to 50 year maturities as they are listed by Bloomberg. Therefore why is only a 20 year period being used for the EIOPA's Euro-zone swap curve, when there is data for longer periods available and published on DNB's website? What is the justification for an Ultimate Forward Rate of 4.2%? We note that this was used by EIOPA for the Solvency II QIS5 at end December 2009. Since then long-term interest rates have fallen considerably at long durations. For example, the 50 year UK swap forward rate has reduced from 4.2% to 3.2% between end 2009 and end 2011 (over the same period 30 year UK rates have also fallen from 4.5% to 3.4%). Therefore, although an Ultimate Forward Rate of 4.2% appeared sensible for the UK and end 2009, it seems to be significantly higher than what the market is implying at end 2011. Therefore, why does EIOPA think forward rates in 90 years time will be significantly higher than the 50 year forward rate when this was not the case in 2009? Similarly, in the Euro-zone, 30 year swap yields fell from 4% at end 2009 to 2.6% at end 2011. This is bigger than the corresponding reduction in the UK. The 50 year-rate on the DNB interest rate term structure curve was 2.7% at end 2011 and 3.6% at end 2009. Therefore why does EIOPA think Euro-zone rates in 60 years' time will be significantly above the 50 year level when this was not the case in 2009? In summary, we are puzzled as to why the Ultimate Forward Rate has remained unchanged at 4.2% since end 2009 for QIS5, since this does not appear to be support by market-related data at 50 year durations in both the UK and Euro-zone. Please can EIOPA explain its thinking and be more transparent on this point. At the moment, the document gives a potential impression that EIOPA is conjuring up long-term discount rates without any reference at all to actual long-term (ie	

	50 year) market-data and recognising the significant drop in long-term yields since end 2009. Given this, we believe it is inappropriate to assume a maximum period of convergence of 40 years from the last liquid point. As currently drafted, this would mean the Ultimate Forward Rate will be attained after 50 years in Sweden; 60 years in Euro-zone but 90 years in the UK. Given the drop in the UK swap curve for data points up to 50 years, it seems unreasonable to assume that in other currencies yields would climb up to 4.2% over the same time period. Under the proposed approach, IORPs in Sweden and the Euro-zone will also be treated more favourably than the UK, since UK will not be able to benefit from the much higher Ultimate Forward Rate for the best part of a century, whereas other countries will benefit within half a century. It seems unfair to penalise the UK in this way, especially when it is the only country where long-term data exists. Finally, the Smith-Wilson method requires a subjective decision over the appropriate point at where an interest curve should be extrapolated, and what the Ultimate Forward Rate should be. Other methods exist, eg the Cairns model, which could be equally or more appropriate, so EIOPA should provide some clarity on why it is using the Smith-Wilson method rather than other methods.	
HBS.8.8.		
HBS.8.9.		
HBS.8.10.	In I.5.5, it is stated that EIOPA will provide the risk-free interest rate curves. However here EIOPA states they will only provide a tool in order for IORPS to apply the Smith-Wilson procedure themselves. Can EIOPA confirm that they will be producing the risk-free curves and that it will not be necessary for IORPs to produce their own curves?	
HBS.8.11.	This option appears to be spurious. Either change the last liquid point and convergence period in HBS.8.7 or don't do this at all.	

	If an option is to be given, we think it makes much more sense to include the option introduced by the US government in July 2012 for US pension plans, where the discount rate can be set based on a corridor of average bond yields over the last 25 years. This will then allow the Commission to make a direct comparison to methods used in the US and those used in the EEA, and allow them to make an overall assessment of the competitiveness of pension costs in both areas.	
HBS.8.12.	Why is the adjustment 50 bp? Why not 100bp? Please explain.	
HBS.8.13.	In order to use a Matching Premium, Annex 2 contains a number of conditions, including that the assigned portfolio of assets are ring-fenced and managed separately from the rest of the obligations. This appears to be overly restrictive. Many IORPs, especially in the UK, back part of their obligations (eg pensioners) with bonds and other assets with similar characteristics. However these are not separately ring-fenced within the IORP, and so it may not be possible to benefit from the matching premium based on the current drafting of Annex 2. We recommend that EIOPA considers further how this can be applied to IORPs in order that they can potentially benefit from this approach.	
HBS.8.14.		
HBS.8.15.	Is it necessary to do sensitivity calculations with a 50bp adjustment to the discount rate, given HBS.8.12 already requires a calculation with a 50bp adjustment? Given HBS.8.12, we suggest these are HBS.8.15 is unnecessary, or replaced with a 100bp sensitivity adjustment.	
HBS.8.16.	How should IORPs take account of any planned changes to investment strategy in the future (eg strategies or stated policies where the proportion invested in fixed-income will increase over time, as part of de-risking activities)?	
HBS.8.17.		

HBS.8.18.	The rates listed in (a) to (d) may not be appropriate if the duration or components of the underlying indices are different from those of the fixed-income assets of the IORP. It may be better to state that IORPs can set bond yields based on the actual bonds held by the IORP. IORPs are used to following this type of approach for IAS19 accounting and funding purposes. Any remaining part of the fixed income portfolio should have a yield based on the actual portfolio – it may not be appropriate to assume the yield equals the average yield of the rest of the portfolio. The assumed return for corporate bonds ought to allow for default risk (ie the expected return will be less than the underlying yield on these bonds given the risk of default). If yields are to be provided, EIOPA should also provide the yields that it would like to see used in other currencies (especially UK and Sweden) in order to ensure there is a consistent approach.	
HBS.8.19.	For a best estimate, we would suggest that the proposed assumption for non-fixed income investments is too low under current financial conditions. In addition, building a best estimate return for equities from the underlying gilt yield is an outdated approach which does not work in the current environment. It is not clear whether non fixed income assets should be 3% above the yield for AAA government bonds (so will vary by country) or should be 5.98% in all countries. We assume it should be country specific? We think a more appropriate best estimate equity risk premium should be in the region of 4% to 5% (with a higher premium in the UK to allow for end 2011 valuation levels of equities in the UK relative to the Euro-zone). Different risk premiums should also be considered for other asset classes eg property, infrastructure, and private equity.	

HBS.8.20.	We also suggest that an alternative option for Level B is considered. This should be the discount rate calculated in accordance with IFRS under IAS19, and will allow direct comparability to the calculated value of the obligation under international accounting standards. This measure is often used by some plan sponsors as a reference point for funding levels .	
HBS.8.21.	As noted above for HBS.8.16, how should IORPs take account of planned changes to investment strategy, or where there are policies to have different assets to back non-pensioner and pensioner liabilities (and so the asset mix will change over time as liabilities mature)?	
HBS.8.22.		
HBS.8.23.	Given the level of complexity of other elements of the holistic balance sheet, and the importance of the inflation assumption, using a fixed inflation rate across all countries appears extremely simplistic. In practice inflation can vary significantly between countries and between economic scenarios under consideration. The assumptions should be market driven, based on observable market information on breakeven inflation expectations. Also, there are different levels of inflation in each country. For example, in the UK, there is inflation measured with reference to the Consumers Price Index and that measured with reference to the Retail Prices Index. In the UK, we think a more appropriate inflation assumption (for Retail Price Index inflation) would be just above 3% at end 2011. This would then be consistent with what UK companies used as a best estimate inflation assumption for IAS19 accounting disclosures at end 2011. We also note that another critical assumption is pension increases, and revaluation of accrued benefits. For cash balance plans, a critical assumption is the annual rate of increase to cash balance accounts. These increases are often linked to inflation but are not the same as inflation (eg in the UK, there are maximum limits for some type of pension increases). EIOPA should provide additional guidance on how to set assumptions for increases to benefits.	

HBS.8.24.	It is not clear whether Level A Technical Provisions should allow for salary increases. If the purpose of Level A is come up with an estimate of the value of accrued benefits, then it is important to note that, in many countries, accrued benefits are often regarded as those payable based on salary at the calculation date; plus any increases that are required to be given by statute/regulations/scheme rules between date of leaving and the date benefits commence. As such, a number of countries do not require accrued benefits to include an allowance for future salary increases. The issue of whether to include an allowance for salary increases is when that has been discussed at length by accounting standard setters for many years, and EIOPA should at least acknowledge that it has considered this in formulating its proposals (and if it hasn't we recommend this issue is explored in more detail) Given the level of complexity of other elements of the holistic balance sheet, and the importance of the salary increase assumption, using a fixed rate across all countries appears extremely simplistic. In practice, salary growth expectations can vary significantly between countries and between economic scenarios under consideration. Also, salary growth usually includes an element for general salary increases and an element for promotional salary increases. The latter is often considered as a demographic assumption, with an explicit salary scale for promotional salary increases, as well as the general salary increase assumption.	
HBS.9.1.	It is not entirely clear whether EIOPA is expecting bid market prices to be used, or whether mid market prices could be acceptable. For the avoidance of doubt, we suggest making this clear.	
HBS.9.2.		
HBS.9.3.		
HBS.9.4.		

HBS.9.5.		
HBS.9.6.		
HBS.9.7.		
HBS.9.8.		
HBS.9.9.		
SCR.1.1.		
SCR.1.2.		
SCR.1.3.		
SCR.1.4.		
SCR.1.5.		
SCR.1.6.		
SCR.1.7.		
SCR.1.8.		
SCR.1.9.		
SCR.1.10.	It is likely to be very difficult to assess what future management actions might be, so a significant element of judgement will be required.	
SCR.1.11.		
SCR.1.12.	Even a 95% confidence limit is likely to result in a very high SCR which may have significant implications, depending on the manner in which the SCR is used in practice. We suggest also considering at least an 80% and 90% confidence limit as well.	
SCR.1.13.		
SCR.1.14.	This will require some very significant assumptions to be made, and could lead to significant misstatement of the overall risk. EIOPA should provide more information on the work it has done to derive the co-efficients and that they are suitable for this exercise.	

SCR.1.15.		
SCR.1.16.		
SCR.1.17.		
SCR.1.18.		
SCR.1.19.		
SCR.1.20.		
SCR.1.21.		
SCR.1.22.		
SCR.1.23.		
SCR.1.24.		
SCR.1.25.		
SCR.2.1.		
SCR.2.2.		
SCR.2.3.		
SCR.2.4.		
SCR.2.5.		
SCR.2.6.		
SCR.2.7.	It is not clear how this would work where the pension protection scheme only guarantees a lower level of benefit and only where the sponsor is not able to provide additional support. If the SCR is to be set so that it would ensure a 95% (say) chance of having sufficient funds then it is not clear how a protection scheme that only pays out when there are insufficient funds will reduce the SCR.	
SCR.2.8.		
SCR.2.9.		
SCR.2.10.		
SCR.2.11.		

SCR.2.12.		
SCR.2.13.		
SCR.2.14.		
SCR.2.15.		
SCR.2.16.		
SCR.2.17.	Calculating net Basic Solvency Capital Requirements massively increases the amount of calculations required, and overall complexity of the calculations. Given that no decision has been made on confidence level ,for the purpose of the QIS, why not simply set the adjustment to the maximum amounts defined in SCR.2.20? We note that the net SCR may not reduce to zero (eg counterparty default risk of plan sponsor), so EIOPA could state that the minimum value of the net Basic SCR equals the part of the SCR in respect of sponsor default risk.	
SCR.2.18.		
SCR.2.19.		
SCR.2.20.		
SCR.2.21.	Calculating net Basic Solvency Capital Requirements massively increases the amount of calculations required and overall complexity of the calculations. Given that no decision has been made on confidence level, for the purpose of the QIS, why not simply set the adjustment to the maximum amounts defined in SCR.2.20? We note that the net SCR may not reduce to zero (e.g. counterparty default risk of plan sponsor), so EIOPA could state that the minimum value of the net Basic SCR equals the part of the SCR in respect of sponsor default risk.	
SCR.2.22.		
SCR.2.23.		

SCR.2.24.		
SCR.2.25.		
SCR.2.26.		
SCR.2.27.		
SCR.2.28.		
SCR.2.29.		
SCR.2.30.		
SCR.2.31.		
SCR.2.32.	We don't see a need to do all these additional calculations (in SCR2.32 to SCR2.35) at this stage. This will massively increase the complexity and costs of the exercise, and, for the options, presented, are not likely to provide information that is really meaningful (especially given it is not even clear what the final confidence level may look like). We see these options as second-order calculations, and it should be more important to focus on other options we have suggested for the technical provisions and sponsor support calculations.	
SCR.2.33.	We don't see a need to do all these additional calculations (in SCR2.32 to SCR2.35) at this stage. This will massively increase the complexity and costs of the exercise, and, for the options, presented, are not likely to provide information that is really meaningful (especially given it is not even clear what the final confidence level may look like). We see these options as second-order calculations, and it should be more important to focus on other options we have suggested for the technical provisions and sponsor support calculations.	
SCR.2.34.	We don't see a need to do all these additional calculations (in SCR2.32 to SCR2.35) at this stage. This will massively increase the complexity and costs of the exercise, and, for the options, presented, are not likely to provide information that is really meaningful (especially given it is not even clear what the final confidence level may look like). We see these options as second-order calculations, and it should be more important to focus on other options we have suggested for the technical provisions and sponsor support calculations.	

SCR.2.35.	We don't see a need to do all these additional calculations (in SCR2.32 to SCR2.35) at this stage. This will massively increase the complexity and costs of the exercise, and, for the options, presented, are not likely to provide information that is really meaningful (especially given it is not even clear what the final confidence level may look like). We see these options as second-order calculations, and it should be more important to focus on other options we have suggested for the technical provisions and sponsor support calculations. It is not clear how allowance can sensibly be made for the pension protection scheme in the SCR. It would appear that the pension protection scheme can only ever fill a proportion of any shortfall in funding ignoring the pension protection scheme. For simplicity, we suggest allowance should be excluded in this element of the calculations.	
SCR.3.1.		
SCR.3.2.		
SCR.3.3.		
SCR.3.4.		
SCR.3.5.		
SCR.3.6.	EIOPA should explain where the parameters have come from (eg 4%, 0.45% etc) and why they are considered suitable for IORPs.	
SCR.4.1.	It is unclear why EIOPA thinks intangible asset risk this is an issue for IORPs. We note that in EIOPA's Final Report on QIS5 for insurers, intangible risk was 0% (ie nil!) of the overall Basic SCR, so why is EIOPA asking IORPs to consider this at this stage?	
SCR.4.2.		
SCR.4.3.		
SCR.4.4.		

SCR.5.1.		
SCR.5.2.		
SCR.5.3.		
SCR.5.4.		
SCR.5.5.		
SCR.5.6.		
SCR.5.7.		
SCR.5.8.		
SCR.5.9.		
SCR.5.10.		
SCR.5.11.		
SCR.5.12.		
SCR.5.13.		
SCR.5.14.		
SCR.5.15.		
SCR.5.16.		
SCR.5.17.		
SCR.5.18.		
SCR.5.19.		
SCR.5.20.		
SCR.5.21.		
SCR.5.22.		
SCR.5.23.	As short-term interest rates are now below 0% in some countries; it is not appropriate to set the shocked rate to 0% if the unstressed rate is currently negative. We suggest removing the floor of 0% for the shocked rates.	

SCR.5.24.		
SCR.5.25.		
SCR.5.26.		
SCR.5.27.		
SCR.5.28.		
SCR.5.29.		
SCR.5.30.		
SCR.5.31.		
SCR.5.32.		
SCR.5.33.	The definition of "Other" is too wide. In particular, some investments such as private equity, hedge funds, infrastructure, and commodities have different risk/return characteristics to listed equities, and it is not appropriate to group them together for the purpose of calculating a risk level. This is particular the case for IORPs who may have much larger exposure to these other types of investments than is the case for insurers We would prefer to see "other" broken down into different types and considered separately. Given the level of detail for calculating spread risk and concentration risks, we think it is appropriate to consider further for equity risk, especially given its overall significance.	
SCR.5.34.		
SCR.5.35.	The definition of "Other" is too wide. In particular, some investments such as private equity, hedge funds, infrastructure, and commodities have different risk/return characteristics to listed equities, and it is not appropriate to group them together for the purpose of calculating a risk level. This is particular the case for IORPs who may have much larger exposure to these other types of investments than is the case for insurers We would prefer to see "other" broken down into different types and considered separately. Given the level of detail for calculating spread risk and concentration risks, we think it is	

	appropriate to consider further for equity risk, especially given its overall significance. We are concerned that having 40% for all other types of investments is inappropriate. In particular, many IORPs invest, or are considering investing, in infrastructure as they can give a more stable series of long-term cash flows than equity investments. Governments are also keen to have pension funds investing in long-term infrastructure investments. Given this, a proposed 40% charge on infrastructure investments appears penal and could discourage investment in this area (and therefore also impact overall European competitiveness), so we would like to see a lower charge used for infrastructure (eg 25% or 30%).	
SCR.5.36.		
SCR.5.37.		
SCR.5.38.		
SCR.5.39.		
SCR.5.40.		
SCR.5.41.		
SCR.5.42.		
SCR.5.43.		
SCR.5.44.	Given there is so much uncertainty over the actual confidence levels, we think that including other options at this stage is rather spurious, and that this option should be removed.	
SCR.5.45.	Given there is so much uncertainty over the actual confidence levels, we think that including other options at this stage is rather spurious, and that this option should be removed. We cannot see IORPs supporting charges based on shocks of 39% and 49%.	
SCR.5.46.	Given there is so much uncertainty over the actual confidence levels, we think that including other options at this stage is rather spurious, and that this option should be removed.	

	However, we note that a lower stress level is likely to be supported by IORPs. However this proposal creates a cliff-edge. IORPs with duration of 11.5 years will have a much tougher treatment than those with duration of 12 years. It would be much better to make this more duration dependent (eg Equity Stress of 30%/40% at zero duration; reducing linearly to 22% at duration of 12 years). Also the proposed long-term stress of 22% is then lower than the 25% applied to property, which doesn't make sense . It this option is pursued, we would recommend having a duration-based approach to property as well.	
SCR.5.47.		
SCR.5.48.		
SCR.5.49.		
SCR.5.50.		
SCR.5.51.		
SCR.5.52.		
SCR.5.53.		
SCR.5.54.		
SCR.5.55.	As noted in our answer to SCR.5.46, a lower stress should be used if a duration-based approach is used for equities.	
SCR.5.56.		
SCR.5.57.		
SCR.5.58.		
SCR.5.59.		
SCR.5.60.		
SCR.5.61.		

SCR.5.62.		
SCR.5.63.		
SCR.5.64.		
SCR.5.65.		
SCR.5.66.		
SCR.5.67.		
SCR.5.68.		
SCR.5.69.		
SCR.5.70.		
SCR.5.71.		
SCR.5.72.		
SCR.5.73.		
SCR.5.74.		
SCR.5.75.		
SCR.5.76.		
SCR.5.77.		
SCR.5.78.		
SCR.5.79.		
SCR.5.80.		
SCR.5.81.		
SCR.5.82.		
SCR.5.83.		
SCR.5.84.		
SCR.5.85.		
SCR.5.86.		
SCR.5.87.		

SCR.5.88.		
SCR.5.89.		
SCR.5.90.		
SCR.5.91.		
SCR.5.92.		
SCR.5.93.	Given recent bail-outs and credit downgrades in a number of EEA countries , we do not think it is appropriate to say that no capital requirement should apply for bonds issued by EEA states. We think the same considerations should be made as for non-EEA states in SCR.5.94.	
SCR.5.94.	Given recent bail-outs and credit downgrades in a number of EEA countries, we do not think it is appropriate to say that no capital requirement should apply for bonds issued by EEA states. We think the same considerations should be made as for non-EEA states in SCR.5.94. Why isn't this table also applied to EEA government bonds; so there is a risk factor for any EEA government bond issued by a country with a credit rating of A or below? Why is the factor for unrated governments and central banks is higher than the factor for those rated B or lower? Surely the lack of a rating would suggest concerns about the credit quality of the government or bank concerned?	
SCR.5.95.		
SCR.5.96.		
SCR.5.97.		
SCR.5.98.		
SCR.5.99.		
SCR.5.100.		
SCR.5.101.		
SCR.5.102.		

SCR.5.103.		
SCR.5.104.		
SCR.5.105.		
SCR.5.106.		
SCR.5.107.		
SCR.5.108.		
SCR.5.109.	For note that EIOPA's report on QIS5 for insurers showed that concentration risk was a very small part of the overall risk (6% of the overall total). Given this, it seems disproportionate to require IORPs to carry out all the calculations in this section. Why not have a simplification, eg concentration risk = 6% of overall market risk?	
SCR.5.110.		
SCR.5.111.		
SCR.5.112.		
SCR.5.113.		
SCR.5.114.		
SCR.5.115.		
SCR.5.116.		
SCR.5.117.		
SCR.5.118.		
SCR.5.119.	We note that, where IORPs have significant equity allocations, they may well have holdings in individual companies that are above the concentration threshold. This holdings are, in many cases, likely to be holdings in the largest companies in their member state, as such companies will form a large proportion of local equity indices. This means IORPs may also be penalised even if they invest passively in index-tracking portfolios.	

	We think the proposed thresholds of 1.5%/3% could penalise investment in some of Europe's largest companies (many of which have a geographically diverse business). It is not clear if EIOPA has considered this point, but we do not think EIOPA's intention should be to discourage investment in Europe's largest companies. It also seems inappropriate to have a low threshold for holdings in large European companies, and a 10% threshold in a single property (see SCR.5.124). Given this, we think that the concentration thresholds should be reviewed, or set so they at least based on the % exposure in underlying stock market indices, or set so they are the same as the threshold of 10% for individual properties in SCR.5.125.	
SCR.5.120.		
SCR.5.121.		
SCR.5.122.		
SCR.5.123.		
SCR.5.124.		
SCR.5.125.		
SCR.5.126.		
SCR.5.127.		
SCR.5.128.	Given recent bail-outs and credit downgrades in a number of EEA countries, we do not think it is appropriate to say that no capital requirement should apply for bonds issued by EEA states. We think the same considerations should be made as for non-EEA states in SCR.5.94. EEA states with credit ratings of A or below should arguably be included in these calculations, and that saying no capital requirement applies understates the current risk.	
SCR.5.129.	Given recent bail-outs and credit downgrades in a number of EEA countries, we do not think it is	

	appropriate to say that no capital requirement should apply for bonds issued by EEA states. We think the same considerations should be made as for non-EEA states in SCR.5.94. EEA states with credit ratings of A or below should arguably be included in these calculations, and that saying no capital requirement applies understates the current risk.	
SCR.5.130.		
SCR.5.131.		
SCR.6.1.		
SCR.6.2.	We do not agree that the case has been made for counterparty risk adjustments, other than in respect of non-collateralised swaps and other contracts of insurance. The counterparty risk for plan sponsor can then simply be set to a % of the Value of the Sponsor Support on the Holistic Balance Sheet; where this % is linked to the credit rating. We have done some work assessing what these %'s could look like, and we would be happy to share our thinking. The above proposals would massively simplify the level of calculations required for this section.	
SCR.6.3.		
SCR.6.4.		
SCR.6.5.		
SCR.6.6.		
SCR.6.7.		
SCR.6.8.		
SCR.6.9.		
SCR.6.10.		
SCR.6.11.		

SCR.6.12.		
SCR.6.13.		
SCR.6.14.		
SCR.6.15.		
SCR.6.16.		
SCR.6.17.	Most large listed companies have credit ratings AND market implied ratings. Most small or private or subsidiary companies do not have either. Using the parent rating if a subsidiary rating is not available undermines the nature of the "legal" covenant. . The complexity of some corporate structures can also have a significant impact on the true covenant strength. For example, on the "wish list" of most UK trustee groups (and the UK Pension Regulator!) is that the UK trustees obtain a parent company guarantee in order to reduce the pension fund's reliance on the standalone (ie "legal") covenant of the UK subsidiary which may be financially much weaker than the parent. In reality, most UK pension funds do not succeed in getting such a guarantee as it can entail substantial financial costs to the parent company. Therefore, using the parent's company credit rating if the subsidiary is not rated may result in a material over-estimation of the strength of the sponsor and goes against the UK's scheme specific approach. We do not agree that unrated sponsors should have a default rating in line with that of a B rated company. There is some logic in this for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who cannot choose their sponsor.	
SCR.6.18.	It is not clear how this 50% has been derived. Given the incredibly complex construction of the rest of the SCR the arbitrary nature of this key assumption seems to have very little backing.	
SCR.6.19.		
SCR.6.20.		
SCR.6.21.		

SCR.6.22.		
SCR.6.23.		
SCR.6.24.		
SCR.6.25.		
SCR.6.26.		
SCR.6.27.		
SCR.6.28.		
SCR.6.29.		
SCR.6.30.		
SCR.6.31.		
SCR.6.32.		
SCR.7.1.		
SCR.7.2.		
SCR.7.3.		
SCR.7.4.		
SCR.7.5.		
SCR.7.6.		
SCR.7.7.		
SCR.7.8.		
SCR.7.9.		
SCR.7.10.		
SCR.7.11.		
SCR.7.12.		
SCR.7.13.		
SCR.7.14.		
SCR.7.15.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.7.16.		
SCR.7.17.		
SCR.7.18.		
SCR.7.19.		
SCR.7.20.		
SCR.7.21.		
SCR.7.22.		
SCR.7.23.		
SCR.7.24.		
SCR.7.25.		
SCR.7.26.		
SCR.7.27.		
SCR.7.28.		
SCR.7.29.		
SCR.7.30.		
SCR.7.31.		
SCR.7.32.		
SCR.7.33.		
SCR.7.34.		
SCR.7.35.		
SCR.7.36.		
SCR.7.37.		
SCR.7.38.		
SCR.7.39.		
SCR.7.40.		
SCR.7.41.		

SCR.7.42.		
SCR.7.43.		
SCR.7.44.	It is not entirely clear what risks are supposed to be included in the Benefit Options module. What about the risk of conversion terms changing in the future; what about the risk of adverse demographic experience e.g. turnover, early retirement. Given the insurance-focused nature of the wording, it is not easy to work out what risks EIOPA want to have captured in this module? What about salary increases being higher than expected? What about pension increases being higher than expected? What about members having a greater number of beneficiaries than expected (so greater levels of benefits payable upon death). In general, there is a danger of the approach adopted being disproportionate for IORPs as many of the benefit options are broadly cost-neutral.	
SCR.7.45.		
SCR.7.46.	We are puzzled by use of the term 'lapse' when this is very specific to insurers, and not a phrase generally used by IORPs. This gives the impression this part has been lifted from Solvency II for insurers, without thinking about how it could apply for IORPs.	
SCR.7.47.		
SCR.7.48.		
SCR.7.49.	As for SCR.7.46, use of the terms lapse and lapsation is rather off-putting and not relevant for most IORPs.	
WSCR.7.50.	As for SCR7.46, there are terms here that are more specific to insurers eg surrender value?	
SCR.7.51.	What else is supposed to be included here? What about the risk of conversion terms changing in the future; what about the risk of adverse demographic experience eg turnover, early retirement. Given the insurance-focused nature of the wording, it is not easy to work out what risks EIOPA want to have captured in this module?	

	What about salary increases being higher than expected? What about pension increases being higher than expected? What about members having more beneficiaries than expected (so greater levels of benefits payable upon death).	
SCR.7.52.		
SCR.7.53.		
SCR.7.54.		
SCR.7.55.		
SCR.7.56.		
SCR.7.57.		
SCR.7.58.		
SCR.7.59.	Again, we have insurance style terminology eg surrender strains. This is off-putting for use by most IORPs, so we suggest making more IORP-friendly.	
SCR.7.60.		
SCR.7.61.		
SCR.7.62.		
SCR.7.63.		
SCR.7.64.		
SCR.7.65.		
SCR.7.66.		
SCR.7.67.		
SCR.7.68.		
SCR.7.69.		
SCR.7.70.		
SCR.7.71.	It is difficult to be certain which annuities might be subject to changes in the "legal environment" given that the law can be changes in unexpected ways. This aspect will need to be clarified.	

	For example, in the UK, we have potential uncertainty surrounding GMP equalisation, application of TUPE to early retirement and pensions; application of age-discrimination to IORPs following the Test-Achats Case in 2011? These are all linked to the legal environment, and is EIOPA saying that the capital requirement for this risk is simply 3% of annuities payable. EIOPA should clarify where the 3% has come from, and whether it is considered to be appropriate to all types of benefits in all member states? EIOPA should also clarify whether it means "benefits payable" instead of "annuities payable", as annuities seems to be insurance-specific.	
SCR.7.72.		
SCR.7.73.		
SCR.7.74.		
SCR.7.75.		
SCR.7.76.		
SCR.7.77.		
SCR.7.78.		
SCR.7.79.		
SCR.7.80.		
SCR.7.81.		
SCR.7.82.		
SCR.7.83.		
SCR.7.84.		
SCR.7.85.		
SCR.7.86.		
SCR.7.87.		

SCR.8.1.		
SCR.8.2.		
SCR.8.3.		
SCR.8.4.		
SCR.8.5.		
SCR.8.6.		
SCR.8.7.		
SCR.9.1.		
SCR.9.2.		
SCR.9.3.		
SCR.9.4.		
SCR.9.5.		
SCR.9.6.		
SCR.9.7.		
SCR.9.8.		
SCR.9.9.		
SCR.9.10.		
SCR.9.11.		
SCR.9.12.		
SCR.9.13.		
SCR.9.14.		
SCR.9.15.		
SCR.9.16.		
SCR.9.17.		
SCR.9.18.		
SCR.9.19.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.9.20.		
SCR.9.21.		
SCR.9.22.		
SCR.9.23.		
SCR.9.24.		
SCR.9.25.		
SCR.9.26.		
SCR.9.27.		
SCR.9.28.		
SCR.9.29.		
SCR.9.30.		
SCR.9.31.		
SCR.9.32.		
SCR.9.33.		
SCR.9.34.		
SCR.10.1.		
SCR.10.2.		
SCR.10.3.		
SCR.10.4.		
SCR.10.5.		
SCR.10.6.		
SCR.10.7.		
SCR.10.8.		
SCR.10.9.		
SCR.10.10.		
SCR.10.11.		

MCR.1.1.	It is not clear how the 25% and 45% minimum and maximum percentages of the SCR have been derived.	
MCR.2.1.		
MCR.2.2.		
MCR.2.3.		
MCR.2.4.		
MCR.2.5.	This section includes terms like "profit participation". This seems to have been cut and paste from Solvency II without giving consideration whether it is appropriate terminology and approach for IORPs, and we suggest this section is reworded so it is appropriate for IORPs. Presumably TP1 represents technical provisions excluding discretionary/conditional benefits, and TPs is that part of the technical provisions in respect of discretionary/conditional benefits? EIOPA should clarify. Also, what liabilities does EIOPA think will be included in TP4 (all other IORP obligations other than those already covered elsewhere in the calculations? CAR is the total "capital at risk" for each contract. What does this mean in practice? IORPs have plan members, not contracts. Does this mean each IORP needs to calculate capital at risk for each member. In this case, EIOPA should provide more clarity on how this should be interpreted (for example is it the SCR)?	
MCR.2.6.		
MCR.2.7.		
MCR.2.8.		
MCR.2.9.	It is not clear how the weightings applied to each element of the linear calculation have been derived. Please clarify.	

PRO.1.1.		
PRO.2.1.	The objective of this exercise has not been defined with sufficient clarity. It is therefore very difficult to decide on what is proportionate.	
PRO.2.2.		
PRO.2.3.		
PRO.2.4.		
PRO.2.5.		
PRO.2.6.		
PRO.3.1.		
PRO.3.2.		
PRO.3.3.		
PRO.3.4.		
PRO.3.5.		
PRO.3.6.		
PRO.3.7.		
PRO.3.8.		
PRO.3.9.	It would also seem appropriate to consider the overall picture. Our view is that It would be disproportionate to analyse certain risks in great detail where other risks, perhaps more significant risks such as continuing employer support, are very difficult to model with any accuracy or depend on heroic assumptions.	
PRO.3.10.		
PRO.3.11.		
PRO.3.12.		
PRO.3.13.		
PRO.3.14.		

PRO.3.15.		
PRO.3.16.		
PRO.3.17.		
PRO.3.18.		
PRO.3.19.	It is not clear who the user is and what decisions are to be taken. EIOPA should clarify what it means for this for the purpose of the QIS (eg is the user the IORP; the national supervisor; EIOPA or the European Commission; and what decisions will be made by the respective users).	
PRO.3.20.	This states "a QIS exercise usually requires a lower degree of accuracy than financial and supervisory reporting". EIOPA should clarify the level of accuracy it requires for this QIS exercise (as most IORPs have not participated in such a QIS exercise in the recent past). Given overall level of pension assets in EEA IORPs exceed €2 trillion (source: EFRP); it would be reasonable to assume total Level A Technical Provisions could be of the order of €3 trillion. Given the overall complexity of calculations; short-time to do the QIS; overall judgement and approximations required; and extreme market conditions at end 2011; we think that it is unlikely to expect that the overall accuracy for these overall calculations will be less than 5-10%. This means that some of the numbers for the EEA as a whole may only have an accuracy level of €150 to €300 billion EIOPA should confirm what level of accuracy it is hoping to achieve, and whether an overall accuracy level of 5-10% (ie €150 billion to €300 billion) is appropriate. If a higher level of accuracy, then EIOPA should provide further guidance on how it hopes this can be reached.	
PRO.3.21.		
PRO.3.22.		
PRO.3.23.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
PRO.3.24.		
PRO.3.25.		
PRO.3.26.		
PRO.3.27.		
PRO.3.28.		
PRO.4.1.		
PRO.4.2.		
PRO.4.3.		
PRO.4.4.		
PRO.4.5.		
PRO.4.6.		
PRO.4.7.		
PRO.4.8.		
PRO.4.9.		
PRO.4.10.		
PRO.4.11.		
PRO.4.12.		
PRO.4.13.		
PRO.4.14.		
PRO.4.15.		
PRO.4.16.		
PRO.4.17.		

Template comments