Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
Name of Company:	National Association of Pension Funds (NAPF) Contact: James Walsh, Senior Policy Adviser, EU and international NAPF, 138 Cheapside, London, EC2V 6AE, United Kingdom Tel: 0044 (0)207 601 1720 www.napf.co.uk	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ <u>Do **not** change the numbering</u> in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column <u>empty</u>. ⇨ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, <u>in Word Format</u>, 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	**About the NAPF** The National Association of Pension Funds is the UK's leading voice for workplace pensions. Our members operate 1,200 pension schemes. They provide retirement	

income for nearly 15 million people and have almost €950 billion of assets under management. Our membership also includes over 400 providers of essential advice and services to the pensions sector. This includes accounting firms, solicitors, fund managers, consultants and actuaries.

The NAPF is also a founder member of the European Federation for Retirement Provision (EFRP).

NAPF's approach to the IORP Directive review

Although the NAPF recognises there are some benefits to be gained from strengthening the IORP Directive's provisions in relation to governance and communications, the NAPF does not support the EC's approach to pension scheme funding, where its proposals draw heavily on Pillar I of the Solvency II Directive.

We are very concerned that the new funding framework set out in the Holistic Balance Sheet is unnecessary and potentially damaging for pension schemes and the economy alike.

The timescale given for the consultation is unrealistic. It would be potentially damaging to produce a proposal based on QIS answers that would, at best, be unclear, incomplete and unreliable.

The IORP Directive review could set the framework for pension scheme funding and regulation for many years to come. These are very significant issues with consequences for savers, investors and the EU's economic prospects. It is vital to take the time to get them right. This should involve a number of rounds of QIS.

This response gives detailed answers to the 23 questions in the consultation paper. However, this willingness to engage on the detail should not be taken as acceptance of the overall principles of EIOPA's approach, about which the NAPF has a series of concerns.

- The EC argues that a new IORP Directive would help to promote the development of cross-border pension schemes. The NAPF does not detect a demand for such schemes. In any case, there are far more significant barriers to cross-border pension provision, such as differences between Member States' tax regimes. The NAPF does not accept the case for a new IORP Directive.

- NAPF research[1] shows that just one element of the Holistic Balance Sheet – the shift to using a risk-free discount rate in calculating the 'Level A' measure of liabilities – would increase the liabilities of UK defined benefit pension schemes by *27%*. This would equate to a *€330 billion* increase in scheme funding requirements.

- The extra funding demands on sponsoring employers would increase their insolvency risk and undermine their credit ratings.

- Employers would be forced to reduce or cease providing pension benefits to their employees, resulting in less generous benefits for scheme members. There would be a further shift from defined benefit to defined contribution pensions, creating a system in which members would be more exposed to

[1] *Impact of risk-free discount rate on pension scheme funding: cases studies from NAPF member pension schemes*, NAPF, December 2011

	risks. • If sponsoring employers were required to put more funds into their pension schemes, then there would be less money available for investment and innovation, with a concomitant impact on growth. So the new IORP Directive could have a significant negative impact on the EU economy, making it more difficult to achieve the EC's 'Europe 2020' targets on job creation and investment. • The real priority for EC-level action should be to extend workplace pension saving to the 60 per cent of EU citizens who currently have no access to it.	
Q1.	**Do stakeholders agree with the general set-up of the QIS exercise as put forward in the Introduction (Chapter 1)? What improvements do stakeholders suggest?** The NAPF has serious concerns that the set-up of the QIS exercise is not fit for purpose. **Six-week consultation period inadequate** The six-week period allowed for the present consultation is completely inadequate for careful consideration of the complex issues raised. It does not allow stakeholders to get detailed input from technical experts. • NAPF recognises that EIOPA's timetable is largely driven by the European Commission's objective of delivering a draft Directive by summer 2013. But EIOPA	

	– as the EC's adviser – should make it clear that more time is needed to test policy options and develop a sound policy proposal. • The European Commission's 'General principles and minimum standards for consultation of interested parties by the Commission'[2] stipulate a minimum of 8 weeks for consultations. The present consultation is in breach of the EC's own standards. **Getting the QIS right – several rounds required** The IORP Directive review could set the framework for pension scheme funding and regulation for many years to come. These are very significant issues with consequences for savers, investors and the EU's economic prospects. It is vital to take the time to get them right. This should involve a number of rounds of QIS. • The Holistic Balance Sheet proposal raises completely new concepts that require far more detailed consideration than is possible within the current timetable. For example, the valuation of sponsor covenant and pension protection schemes presents completely new challenges that should each be the subject of a separate QIS. In fact it is apparent that EIOPA has had to develop a brand-new methodology for the valuation of these elements, and it is not clear that this is the methodology that would actually apply if the Holistic Balance Sheet were to be adopted in the IORP Directive. • EIOPA is right to note (at para 1.9.1 of the consultation paper) that the Solvency II	

[2] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2002:0704:FIN:EN:PDF

	Directive for insurers has been in development for over 10 years and has taken five QIS exercises. The issues for IORPs are more complex, not least because the proposed regime would represent a greater change from pensions schemes' existing practice than Solvency II did for insurers. EIOPA should advise the EC that further QIS exercises may well be necessary, for example, on Pillar II or Pillar III-related issues or if the final methodlogy is different from that currently proposed. • The proposed QIS methodology does not address the most important question – how will the Holistic Balance Sheet be used in practice? If it is to replace the existing scheme-specific funding regime in the UK, then clarity is needed about what kind of recovery periods will be permitted, tiering of assets and what funding levels will need to be targeted. This would have a direct and very significant impact on pension scheme and corporate finances. • The QIS methodology does not explain how multi-employer schemes would be treated within the Holistic Balance Sheet. There are particular, complex challenges in measuring sponsor covenant in these schemes. • No guidance is provided on how covenant should be measured in those schemes that are partly or entirely in the public sector and which have some degree of government support. Employers such as universities have an important – if intangible – degree of government backing that is not currently reflected in the Holistic Balance Sheet. Once again, these issues should be fully examined in a future QIS. • This proposed QIS falls between two stools. It is contains too much technical detail to warrant the very short 6-week timeframe for responses, but it does not examine	

	the issues as thoroughly as the QIS for Solvency II, which is now in its fifth round – especially in the novel areas of valuation of sponsor covenant and pension protection schemes. **A comprehensive QIS** • NAPF notes (para 1.7.4) that national supervisory authorities will be given freedom to decide whether the QIS should be performed by IORPs, by supervisory authorities, by actuarial firms or by a combination of all three. The NAPF is concerned that, in the UK, the Pensions Regulator is planning to conduct the QIS itself. Although the Regulator plans to involve IORPs in this work, IORPs will not be able to respond to the QIS themselves. EIOPA should ensure that the national supervisor cannot block IORPs from participating in their own right • NAPF proposes that a genuinely 'holistic' assessment of the security of any particular pension scheme would look, not just at the purely financial issues covered by the Holistic Balance Sheet, but also at the quality of scheme governance and the manner in which the scheme communicates with members. • EIOPA should examine alternatives to the Holistic Balance Sheet. These could include Asset Liability Management Studies (ALMs), stress tests and scenario analysis.	
Q2.	**Do stakeholders believe that the adjustment (discretionary and conditional benefits, last resort benefit reductions) and security mechanisms (sponsor support, pension protection schemes) IORPs dispose of are taken into**	

	account adequately? Although adjustment mechanisms will be of greater concern to other Member States, it is apparent that the question of how to take account of such facilities presents a new challenge for EIOPA that has not been covered in its analysis of Solvency II. There is also considerable scope for Member States to arrive at different judgements as to whether a particular benefit is unconditional, conditional or discretionary. A more iterative process – staging of the QIS - would help to ensure greater consistency and reliability. Sponsor support and pension protection are further – complex - elements that were not covered by Solvency II. The proposed methodlogy for valuing these is technically complex and precise, yet includes seemingly arbitrarily-determined variables at critical points. Much more study is required if they are to be accurately assessed for the purposes of the Holistic Balance Sheet, and this is a further reason why more than one round of QIS is required.	
Q3.	**Do stakeholders believe that the draft technical specifications provide enough information and are sufficiently clear and understandable? Which parts could be improved upon?** As noted in the previous answer, there is a worrying lack of clarity in relation to elements that would not have been covered in the analysis of Solvency II, such as valuation of adjustment mechanisms, sponsor support and pension protection schemes. It is not clear how the 'Level A' and 'Level B' measures of liabilities would be	

	used. The derivation of many of the parameters and formulae is not explained adequately and without background information on these choices, it is difficult to assess their reasonability for IORPS. If there is to be a regime flexible enough to apply across the EU, it would be better to set out higher level principles to be interpreted according to local circumstances. Furthermore, EIOPA should bear in mind that, while many of the specifications of Solvency II would have been familiar to insurers, the Holistic Balance Sheet will be completely new territory for IORPs and extra explanation may be required. The numbers generated by the Holistic Balance Sheet will be based on an accumulation of many assumptions. There is reason to doubt that the Holistic Balance Sheet will actually provide an assessment of the strength of the scheme's funding situation that bears any relationship to the reality. For example, it is not clear how the two measure of liabilities ('Level A' and 'Level B') will be used in practice and how they will relate to each other. It is disappointing that EIPA has not published the spreadsheets that will be used in the QIS as part of the present consultation; this makes it impossible for stakeholders to test the methodology.	

Q4.	**Do stakeholders believe that the calculations proposed in the technical specifications are feasible at appropriate costs and with appropriate accuracy within the given timeframe of the QIS?** The NAPF's key concern is not so much about the cost of the QIS itself, but about the costs that IORPs will face if the proposed QIS methodology subsequently becomes the methodology that IORPs will have to use when calculating the Holistic Balance Sheet. The NAPF would argue that the significant costs that would be incurred cannot be justified by the very unreliable information that the Holistic Balance Sheet would generate. UK pension schemes only conduct an exercise of this level of complexity once every three years, in their triennial valuations. An average triennial valuation costs in the region of €51,000-€102,000, - more for the largest schemes.[3] The calculation of the Holistic Balance Sheet would be even more costly, as it would require extra calculations for sponsor covenant, pension protection schemes and Solvency Capital Requirement. There is a risk that the introduction of the Holistic Balance Sheet will actually cause confusion and unnecessary worry about the strength of pension scheme funding by generating spurious sets of numbers that do not accurately reflect the actual security	

[3] See *KGC Actuarial Survey 2011* for more detail. The average fee for a triennial valuation ranged from €53,000 for a 2,000-life scheme to around €92,000 for a 10,000-life scheme. http://www.kimgublerconsulting.co.uk/var/aw/44117/649545-Actuarial%20Survey%202011%20Headline%20Results%20Website.pdf

	of the members' benefits. There is also a risk that any disclosure of the detail of the Holistic Balance Sheet will cause market movement in relation to the sponsor's share price.	
Q5.	**Valuation holistic balance sheet** **Do stakeholders believe that the draft technical specifications provide enough guidance on how to set up and value the holistic balance sheet as discussed in Chapter 2? If not, which parts could be improved upon and in what way?** Although larger schemes will be able to make the calculations required for the Holistic Balance Sheet on the basis of the guidance provided, it does not follow that this will be a good use of time or money. As noted in our answer to question 4 above, a average triennial valuation can cost in the region of €51,000-€102,000 - more for the largest schemes.[4] The calculation of the Holistic Balance Sheet would be even more costly, as it would require extra calculations for sponsor covenant, pension protection schemes and Solvency Capital Requirement. With IORPs under a number of severe pressures from market conditions, Quantitative	

[4] See *KGC Actuarial Survey 2011* for more detail. The average fee for a triennial valuation ranged from €53,000 for a 2,000-life scheme to around €92,000 for a 10,000-life scheme. http://www.kimgublerconsulting.co.uk/var/aw/44117/649545-Actuarial%20Survey%202011%20Headline%20Results%20Website.pdf

	Easing and increasing longevity, these extra burdens are not justified. For some schemes the challenge will be much greater. Multi-employer schemes, for example, would have to incur even greater costs in gathering the information required on the value of each employer's support for the scheme. And it is not clear how publicly funded bodies, such as universities, would go about calculating the Holistic Balance Sheet, particularly the component for sponsor support.There are similar uncertainities in relation to private sector pension schemes where government intervention would be likely if the sponsor were facing insolvency – such as some of the formerly state-owned utility providers. Many elements of the Holistic Balance Sheet are drawn directly from Solvency II and we believe that inadequate consideration has been given as to their suitability for IORPs. For example, the purpose of the Risk Margin is not adequately explained in the context of an IORP.	
Q6.	**Given the purpose of the QIS, do stakeholders consider the proposed simplifications for the valuation of the holistic balance sheet (for the risk margin in section 2.5, sponsor support and pension protection schemes in 2.6 and amounts recoverable from insurance in 2.7) adequate? Do you have suggestions for additional simplifications that would be appropriate?** The simplifications are not particularly simple; they still require an extensive range of data.	

	A more effective simplification would be to remove some elements of the Holistic Balance Sheet altogether. For example, there is no reason for the Risk Margin other than that it replicates the system applied to the insurance sector in Solvency II. Unlike in insurance, the long-term nature of pension provision means that schemes are able to plan their way out of underfunding over a number of years, through recovery plans, so there is no need for a separate risk margin. Further simplifications should include removing elements of Solvency II that are not particularly relevant for pension schemes, eg spread risk, market risk concentrations and recoverables from insurance contracts. Given the impossibility of putting an accurate figure on the value of sponsor support, the NAPF would propose that the result emerging from the Holistic Balance Sheet will not be sufficiently robust to be used as a basis for scheme funding. At best it could be used as a disclosure item or as a prompt for discussion by the governing body, although the UK's system of triennial reviews already serves this purpose very well.	
Q7.	**The best estimate of technical provisions should be based on the most recent mortality tables including the future trend in mortality rates (Section 2.4). Do stakeholders believe that IORPs will be able to take into account this trend in mortality rates? Can you explain?** In the UK, guidance from the Pensions Regulator allows IORPs to choose reasonable assumptions about mortality, according to the nature of the particular scheme. Actuaries would also refer to industry-standard tables, such as those issued by the	

	Board for Actuarial Standards. The NAPF is confident, therefore, that actuaries will be able to take account of potential future trends in mortality rates. This question highlights one of the difficulties in applying a standard assessment method across the EU, as some Member States use the 'foreseeable trend' for mortality and some do not.	
Q8.	**Is it clear enough from the technical specifications what cash flows should be taken into account in the calculation of the best estimate (e.g. in relation to benefits (unconditional, pure conditional, pure discretionary, mixed), contributions, expenses, etc.) and how the projection of these cash flows should be made (Section 2.4)?** It is **not** clear which cash flows should be taken into account in calculating the best estimate of Technical Provisions. Clearer definitions are required of unconditional, conditional and discretionary benefits. Projecting cash flows in respect of each individual member would be so costly and time consuming as to make it very difficult – particularly for smaller schemes.	
Q9.	**EIOPA is considering to take into account in the QIS the possibility in some member states to reduce benefits in case of sponsor default (for example,**	

	when a pension protection scheme does not guarantee the full level of benefits) in the valuation of the best estimate of technical provisions (see Reduction of benefits in case of sponsor default in Section 2.4 and Pension protection schemes in Section 2.6). Do stakeholders agree and, if yes, should it only apply in case of sponsor support backed up by a pension protection scheme or to sponsor support in general? The Holistic Balance Sheet calculation should take account of the possibility of reducing benefits where a pension protection scheme does not guarantee the full level of benefits, under the condition that benefit reduction is a regular steering instrument and has been properly communicated to members.	
Q10.	**The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose?** The key difficulty with these proposals – particularly those on sponsor support – is that the Holistic Balance Sheet attempts to ascribe objective values to concepts that are inherently subjective. Furthermore, there is an almost complete absence of reference to, or detail on, multi-employer plans or those with employers who are from the non-profit making,	

	charitable or quasi-public sector. This is a major omission, which would make it impossible to place a robust value on sponsor support. The NAPF is also concerned that the complexity of the calculations, together with the arbitrariness of some of the central parameters, renders the results unreliable. Their worth is further undermined by the expense involved in undertaking the calculations and the limited uses to which the Holistic Balance Sheet can reasonably be put. EIOPA should consider simpler alternatives to the Holistic Balance Sheet, such as Asset Liability Management, stress tests and continuity analysis.	
Q11.	**Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)?** As noted in the previous answer, further guidance is required on how these factors would be valued in the case of multi-employer schemes and not-for-profit organisations. There is an assumption at HBS.6.17 that a 50% recovery rate will be secured from defaulting employers. Whilst this might be as good as any arbitrary number to start with, there would need to be a further assessment where there is the prospect of government rescue for a failing employer (eg UK universities and other in-part publicly funded or statutory bodies that have IORPs). EIOPA should consider whether a scheme-specific approach wiould be more appropriate.	

	In HBS.6.3. it is stated that the “value … of sponsor support can be derived from the wealth of the sponsor which is available to give security to the pension promise”. We would argue that wealth of the sponsor is just one measure of the value of sponsor support, and that also the longevity, standing and status of the sponsor is important – elements that are much harder to measure. UK universities are a case in point – they would generally be considered to be ‘wealthy’ and the sponsor support which they are able to provide is considerable, however they do not have vast cashflows (they do not have a profit-making objective). Their support is in the form of being able to provide virtually guaranteed long-standing support to the scheme over many, many decades (some have been in existence for hundreds of years), which allows a different pace of funding to that found in some other schemes. This form of “wealth” is difficult to measure – and the technical specification of the the QIS would appear not to cater for this type of arrangement. We also note that the European Parliament’s ECON Committee has recently advised in its statement of 19 June 2012 that “no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade” – EIOPA’s advice seems at odds with this.	
Q12.	**Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations.**	

	The NAPF does not agree with the methodology for valuing maximum sponsor support. The assumptions made for cash flows, default probabilities and recovery rates are – at best – educated guesses. The NAPF also has concerns on a number of points of detail: • The provision at HBS.6.28(b) refers to future wealth by reference to "future profits" of the sponsor, showing once again a lack of consideration towards non-profit making entities. • The proposal at HBS.6.15 also makes no mention of how the ratings would be applied to the multiple sponsors of a multi-employer IORP – this would need to be spelt out. • In HBS.6.29 there is a reference to "assets over liabilities of the sponsor's balance sheet". In some schemes of particular type and status, the assets on the balance sheet are not shown at market value. The trustees of such IORPs spend considerable time assessing the true value of the sponsor's assets available to the scheme, whether or not they exist (or are correctly reflected) on the balance sheet of the sponsor. • In HBS.6.29, in the second bullet point, there is mention of "100% of the liabilities of the sponsor towards the IORP, as written in the balance sheet of the sponsor". For some non-sectionalised multi-employer pension schemes in the UK there is no separation of assets and liabilities between the scheme's participating employers,	

	and, therefore, whilst the scheme is an IORP it has no scheme liabilities on the balance sheet, hence the wealth component in this case could not be correctly calculated. • At HBS.6.35 there is mention of multi-employer IORPs, and it states that " … it is sufficient to make the calculations only for a sufficient number of (larger) employers for which data is available". It then states that the calculations can then be grossed up if the results would be seen as representative. What if they would not be? This again is a very significant lack of detail and appreciation of the need to cover multi-employer arrangements. • it is unclear whether recovery plan contributions should be included on top of assumed future net profits. The difference can be substantial and if they are additional (implied in the QIS specification) this could be considered to be double counting. As already noted, we believe that EIOPA should consider alternative approaches to the assessment of sponsor support and pension protection schemes. The consultation period has not been long enough for us to consider and propose suitable alternatives.	
Q13.	**The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?**	

	It is not clear from the consultation how the 'Level A' and 'Level B' measures of Technical Provisions will be used in practice. If – as seems possible – the intention is that Level A would have some kind of precedence, then it would be better to swap the 'Level A' and 'level B' measures, so that the principle measure used in the Holistic Balance Sheet would be based on the expected rate of return on assets. Many pension schemes will inevitably be concerned that the Holistic Balance Sheet calculations will be based on one day's figure for swap bid rates. We note that the regulatory authorities in the Netherlands are about to move to using figures from the last month, which introduces a degree of smoothing and reduces the risk of the Holistic Balance Sheet being based on figures that represent a 'spike' rather than the overall market situation. In relation to the approximations considered : *Counter-cyclical premium* We question whether the adjustment (50 bp) should vary from Member State to Member State to take account of different yields on Member States' sovereign bonds. *Matching premium* We are disappointed that the draft QIS specifications have been imported from Solvency II with minimal adjustment. In particular we are concerned at the limited circumstances in which a matching premium may be used and remain to be convinced that such restrictive conditions are necessary for IORPs.	

Q14.	**Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflects the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?** Further clarity is required over how the Level B discount rate will operate and refinement is needed to take accont of the range of investment strategies available to IORPs. The NAPF is concerned that the current proposals would lock in returns on government bonds at current levels, which could easily prove inappropriate over the long term. Paras HBS 8.18-8.21 set out values to be used for the return on a range of assets. It is highly unlikely that these will be appropriate for all the economies in the EU, and the NAPF would propose separate assumptiosn for individual Member States – or at last for those outside the Eurozone.	
Q15.	**Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expect inflation implied by financial markets? Could you explain?** The issue of salary growth, and the assumption to be adopted for it by IORPs, is a matter for trustee boards in the UK, and in setting this assumption they must have reference to the type and nature of the workforce that forms part of the scheme. It is,	

	of course, for employers to set salaries; trustees will, therefore, have regard to employers‘ intentions when setting their assumptions. It seems inappropriate for the QIS exercise to determine a standard rate for the salary increase assumption. Inflation and interest rate risks are among the most important considerations for IORPs, and the NAPF is astonished that they are not examined in greater depth by the QIS. In fact the EIOPA draft is at its weakest and least detailed on this – one of the issues of greatest importance to UK IORPS. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent manner. It is also the case that UK IORPs typically apply inflationary adjustments based on two different inflation measures, RPI and CPI. It is not clear what measure of inflation the fixed 2% is targeting and it would not be appropriate to use the same assumption for CPI and RPI. EIOPA should also consider the potential market impact of ‘standardising’ expected inflation and interest rates in this way. There would inevitably be consequences in terms of demand for different types of bonds and securities, and these impacts would need to be fully evaluated.	
Q16.	**SCR standard formula and MCR** **Do stakeholders believe that the description of the SCR in Chapter 3 is sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?**	

	The description of the SCR is not sufficiently clear and understandable, for a number of reasons. • More guidance is needed on how loss-absorbing capacity of adjustment mechanisms and security mechanisms will be used in the SCR calculation. • It is not clear how EIOPA will infer 97.5 and 95% security levels from calculations based on 99.5%, as the results will be non-linear. • It is unclear how sponsor default risk will be calculated for multi-employer schemes. In any case, EIOPA should recognise that the SCR has little relevance for many IORPs. In the UK, many defined benefit IORPs are on a journey towards buyout. The funding level required for buyout is below that required by an SCR-based system. So these IORPs would be bought out before reaching the funding level that EIOPA is proposing. Once bought out, they would be subject to an SCR anyway, as they would come under the regulatory umbrella of the Solvency II legislation. So there is little to be gained by including a SCR in the Holistic Balance Sheet.	
Q17.	**Do stakeholders believe that the risks IORPs are facing are adequately reflected in the calculation of the SCR and MCR (Chapter 3 and 4)? Are there in the stakeholders' view any risks being considered that are not material and could be excluded from the technical specifications? Are there other risks**	

	that should be considered in the calculation of the SCR? The NAPF is very concerned that the SCR proposals appear to be directly copied from Solvency II. Several of the risks included in the SCR are far less relevant for UK pension schemes (at least in the U) and should be excluded. These include: - catastrophe risk - health risk - operational risk - intangible asset risk - pension disability-morbidity risk - pension revision risk Note that pension disability-morbidity risk and pension revision risk are relevant for some other Member States; these should be listed separately. Meanwhile, the EIOPA proposals completely overlook some significant risks. For example – especially in the light of events in the Eurozone over the past 12 months – it seems remarkable that no capital requirement should apply to bonds issued by national governments, when the market applies, in some cases, a significant risk premium. If a market-consistent approach is inappropriate here, then it is inappropriate in other areas. If, in the light of this comment, EIOPA considers a market-consistent approach should be taken, then we assume that EIOPA would propose that this be amended within Solvency II for insurers.	

	If an SCR calculation is required, it might also be appropriate to include an additional shock relating to inflation risk. Again, these complex issues need to be examined in detail in a separate round of QIS.	
Q18.	**Do stakeholders believe that the way the loss-absorbing capacity of adjustment mechanisms and security mechanisms is taken into account in the calculation of the SCR (Section 3.2) is adequate?** The modular approach – requiring three different SCR calculations – is complex and expensive. It would be simpler to recognise that, in the case of IORPs, the existence of sponsor support and pension protection schemes obviate the need for the SCR altogether.	
Q19.	**Do stakeholders believe that the calculation of SCR in the Operational Risk module (Section 3.3) is adequate for IORPs?** There is no need for a separate SCR element for operational risk, as IORPs already cater for unforeseen eventualities through conventional contingency planning. Good governance also plays a key role in reducing operational risk.	

Q20.	**Do stakeholders believe that the simplifications provided for the calculation of the SCR (for spread risk on bonds in section 3.5, value of collateral in section 3.6 and mortality, longevity, benefit option and catastrophe risk in section 3.7) are adequate? Do stakeholders have any concrete suggestions for additional simplifications?** Some of the basic calculations are too complex, especially if the Holistic Balance Sheet is only to be used as an indicative item. As argued in answer to Question 17 above, a number of the risks currently proposed for the SCR are inappropriate for IORPs and should be removed. For example, mortality could be removed, as it is more likely to produce a profit than a loss. The mortality and longevity sub-modules could be combined for IORPs. In our view, the application of the benefit option risk sub-module needs to be clarified for IORPs. In particular, it is not clear how benefit options such as commutation of pension for a cash sum at retirement are to be taken into account. The lack of clarity arises because the wording used has been drafted in an insurance, rather than an IORP, context.	

Q21.	**Do stakeholders believe that the treatment of sponsor default risk in the counterparty default risk module of the SCR calculation (Section 3.6) is appropriate? If not, what improvements would stakeholders suggest?** Sponsor default risk appears to be double-counted in the Holistic Balance Sheet – once in the calculation of sponsor support and once in the SCR. EIOPA should review this area to ensure there is no unnecessary duplication. Aside from this concern, the NAPF notes a number of other respects in which the proposal does not work well: • It is not clear how sponsor default risk should be valued in the case of parent companies outside the European Economic Area. • The consultation paper does not explain how sponsor default risk would be assessed in the case of multi-employer plans and those in the public sector. • It is inappropriate to assume the 'worst' credit risk for those sponsors that do not have a formal credit rating (this would be unduly harsh on, for example, charities and academic institutions.	
Q22.	**Do stakeholders believe that the calculation of SCR in the Benefit option risk sub-module (Section 3.7) is adequate for IORPs?**	

	The benefit option risk sub-module (or 'lapse rate') is calibrated on insurance data and does not reflect actual/potential benefit option take-up within the IORP.	
Q23.	**Do stakeholders believe that the descriptions of financial and insurance risk mitigation (Section 3.9 and 3.10) are sufficiently clear and understandable to enable participants in the QIS to perform the necessary calculations?** This area needs greater consideration and scrutiny than the consultation affords.	
I.1.1.		
I.1.2.		
I.1.3.		
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.		
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.		
I.5.5.		
I.5.6.		
I.5.7.		
I.5.8.		
I.6.1.		
I.6.2.		
I.6.3.		
I.7.1.		
I.7.2.		
I.7.3.		
I.7.4.		
I.7.5.		
I.8.1.		
I.8.2.		
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.		
I.10.3.		
I.10.4		
I.11.1		
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.		
HBS.3.5.		
HBS.3.6.		
HBS.3.7.		
HBS.3.8.		
HBS.3.9.		
HBS.3.10.		

Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
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.		
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.		
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.		
HBS.4.13.		
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.		
HBS.4.24.		
HBS.4.25.		
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.		
HBS.4.35.		
HBS.4.36.		
HBS.4.37.		
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.		
HBS.4.48.		
HBS.4.49.		
HBS.4.50.		
HBS.4.51.		
HBS.4.52.		
HBS.4.53.		
HBS.4.54.		
HBS.4.55.		
HBS.4.56.		
HBS.4.57.		
HBS.4.58.		
HBS.4.59.		

HBS.4.60.		
HBS.4.61.		
HBS.5.1.		
HBS.5.2.		
HBS.5.3.		
HBS.5.4.		
HBS.5.5.		
HBS.6.1.		
HBS.6.2.		
HBS.6.3.		
HBS.6.4.		
HBS.6.5.		
HBS.6.6.		
HBS.6.7.		
HBS.6.8.		
HBS.6.9.		
HBS.6.10.		
HBS.6.11.		
HBS.6.12.		
HBS.6.13.		
HBS.6.14.		
HBS.6.15.		
HBS.6.16.		
HBS.6.17.		
HBS.6.18.		
HBS.6.19.		

HBS.6.20.		
HBS.6.21.		
HBS.6.22.		
HBS.6.23.		
HBS.6.24.		
HBS.6.25.		
HBS.6.26.		
HBS.6.27.		
HBS.6.28.		
HBS.6.29.		
HBS.6.30.		
HBS.6.31.		
HBS.6.32.		
HBS.6.33.		
HBS.6.34.		
HBS.6.35.		
HBS.6.36.		
HBS.6.37.		
HBS.6.38.		
HBS.6.39.		
HBS.6.40.		
HBS.6.41.		
HBS.6.42.		
HBS.6.43.		
HBS.6.44.		
HBS.6.45.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
HBS.6.46.		
HBS.6.47.		
HBS.6.48.		
HBS.6.49.		
HBS.6.50.		
HBS.6.51.		
HBS.6.52.		
HBS.6.53.		
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.		
HBS.6.75.		
HBS.6.76.		
HBS.6.77.		
HBS.6.78.		
HBS.6.79.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
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.		
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.		
HBS.7.42.		
HBS.8.1.		
HBS.8.2.		
HBS.8.3.		
HBS.8.4.		
HBS.8.5.		
HBS.8.6.		
HBS.8.7.		
HBS.8.8.		
HBS.8.9.		
HBS.8.10.		
HBS.8.11.		
HBS.8.12.		
HBS.8.13.		
HBS.8.14.		
HBS.8.15.		
HBS.8.16.		
HBS.8.17.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
HBS.8.18.		
HBS.8.19.		
HBS.8.20.		
HBS.8.21.		
HBS.8.22.		
HBS.8.23.		
HBS.8.24.		
HBS.9.1.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.1.11.		
SCR.1.12.		
SCR.1.13.		
SCR.1.14.		
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.		
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.		
SCR.2.18.		
SCR.2.19.		
SCR.2.20.		
SCR.2.21.		
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.		
SCR.2.33.		
SCR.2.34.		
SCR.2.35.		
SCR.3.1.		
SCR.3.2.		

SCR.3.3.		
SCR.3.4.		
SCR.3.5.		
SCR.3.6.		
SCR.4.1.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.5.19.		
SCR.5.20.		
SCR.5.21.		
SCR.5.22.		
SCR.5.23.		
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.		
SCR.5.34.		
SCR.5.35.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.5.45.		
SCR.5.46.		
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.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
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.		
SCR.5.94.		
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.		
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.		
SCR.5.120.		
SCR.5.121.		
SCR.5.122.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.5.123.		
SCR.5.124.		
SCR.5.125.		
SCR.5.126.		
SCR.5.127.		
SCR.5.128.		
SCR.5.129.		
SCR.5.130.		
SCR.5.131.		
SCR.6.1.		
SCR.6.2.		
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.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.6.18.		
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.		
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.		
SCR.7.45.		
SCR.7.46.		
SCR.7.47.		
SCR.7.48.		
SCR.7.49.		
SCR.7.50.		
SCR.7.51.		
SCR.7.52.		
SCR.7.53.		
SCR.7.54.		
SCR.7.55.		
SCR.7.56.		
SCR.7.57.		
SCR.7.58.		
SCR.7.59.		
SCR.7.60.		
SCR.7.61.		
SCR.7.62.		
SCR.7.63.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
SCR.7.64.		
SCR.7.65.		
SCR.7.66.		
SCR.7.67.		
SCR.7.68.		
SCR.7.69.		
SCR.7.70.		
SCR.7.71.		
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.		
SCR.9.20.		
SCR.9.21.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
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.		
MCR.2.1.		

	Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II	Deadline 31 July 2012 18:00 CET
MCR.2.2.		
MCR.2.3.		
MCR.2.4.		
MCR.2.5.		
MCR.2.6.		
MCR.2.7.		
MCR.2.8.		
MCR.2.9.		
PRO.1.1.		
PRO.2.1.		
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.		
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.		
PRO.3.20.		
PRO.3.21.		
PRO.3.22.		
PRO.3.23.		
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.		