

Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
Name of Company:	The Society of Pension Consultants	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a 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. <p>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.</p> <p>The numbering of the paragraphs refers to Consultation Paper 12-003.</p>		
Reference	Comment	
General Comment	<p>SPC is the representative body in the UK for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators.</p> <p>SPC is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group. Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500</p>	

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	<p>largest UK pension funds.</p> <p>SPC's growing membership collectively employs some 15,000 people in the UK providing pension-related advice and services.</p> <p>The consultation paper has been considered by SPC's European Sub-Committee, which comprises representatives of actuaries and consultants, insurance companies, pension administrators and pension lawyers.</p> <ul style="list-style-type: none"> • SPC is disappointed that the consultation is so complex and conducted over too short a timescale for us to be able to make a more meaningful response. We fail to understand why an issue that is of such great importance is being rushed. We also note that EIOPA stated that it intends to review and reconsider its advice given in February 2012 in the light of the QIS. We see little scope for it being able to do so in the face of the Commission's complete lack of regard to the concerns often expressed by the social partners that too little time is allowed to consider all the issues fully. We are sorry to observe that this appears that DG MRKT is determined to press on with its proposal despite almost universal concern that this is to the potential cost of millions of EU citizens • In light of the above, we feel it highly unlikely that many individual IORPs will be able to respond. Many IORPs are small in size and lack the resources either to respond or to bear the additional cost of calculations of this nature. This raises the concern that this is not a genuine consultation. We know that senior management within insurance companies have struggled with the detail of Solvency II; still less able are IORPs to deal with the content of the consultation and therefore the QIS itself • On the one hand, many IORPs are likely to be grateful that the UK Regulator intends to carry out the QIS based on aggregate data it holds, rather than placing the burden on IORPs. However, this raises several important points: <ul style="list-style-type: none"> 1. There is a risk that the aggregate position is not representative of the effect in individual IORPs 2. The fact that this is necessary is evidence that a regulatory system built on these 	

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	<p>proposals will not be workable in practice (if IORPs cannot carry out the QIS themselves, why should they be any better placed to implement a risk-based supervisory/solvency regime built on that QIS?)</p> <p>3. How will the cost of adopting a new regime be assessed? It is evident that some of the approaches (such as the method of assessing best estimate cash flows) and some of the data (eg look through to underlying assets) will be difficult for many IORPs – it is unclear how this cost can be captured by a supervisory authority’s aggregate assessment. Without knowing this, how can an accurate impact assessment be made? We consider that there is a significant risk that implementation costs will be underestimated</p> <ul style="list-style-type: none"> • If (as an alternative) IORPs are provided with ‘tools’ to assist them in calculating the complex numbers, it seems self-evident that such a ‘black box’ approach does not aid in the transparency and management of risks by those operating IORPs • There are some yawning gaps – acknowledged by EIOPA both in this QIS consultation and in its advice in February 2012. Most notable is the absence of any reference to the regulatory intervention in the event that the Holistic Balance Sheet is considered not to balance • Despite assurances from Commissioner Barnier at the 1 March 2012 public hearing, a great deal of the technical specification is ‘cut and paste’ from the Solvency II measures • The regime for Solvency II was developed over a matter of years and informed by successive QISs – starting at a basic ‘range-finding’ level and building to the detail covered in QIS5 • Where new ‘aspects’ (not previously explored in the Solvency II project) have been introduced, it is evident that far too little thought has been given to their relevance and the proposed method of taking them into account – for example the inflation and salary assumptions. For IORP-specific elements at least, a series of iterative QISs should be undertaken • Some specifics stick out as having not been thought through in sufficient detail. For example, we believe that EIOPA should consider the following areas in order to ensure 	

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	<p>that the QIS results are meaningful</p> <ol style="list-style-type: none"> 1. Inflation assumption; if EIOPA expects IORPs to carry out stochastic projections, then the assumptions should be market consistent. While 2% pa may be a reasonable simplification for the Eurozone (as at 31 December 2011), the UK requires two inflation assumptions – one for CPI and one for RPI. For example, as at the same date we consider that 3% pa would be a more reasonable assumption for RPI 2. Salary increase assumptions; our view is that IORPs should be permitted to select an assumption that is appropriate to the membership. Expectations about future earnings increases can vary considerably from one IORP to another. Moreover, in some IORPs limits apply to the level of future earnings increases that can be taken into account 3. Expected return on investments; we note that the expected return on non-fixed income assets is 5.98%; ie an average risk premium of 3% above the AAA Government bond yield of 2.98%, regardless of what the IORP invests in. By contrast, for bond investments four different rates are specified for assessing the expected return on the bond portfolio. We urge EIOPA to consider further how to take account of LDI strategies and the various interest rate/longevity/inflation swaps that are increasingly prevalent in IORP portfolios. In our view, there should be ‘positive’ recognition of such de-risking strategies <ul style="list-style-type: none"> • We question the relevance of a SCR for UK IORPs at all. Most UK defined benefit IORPs are ‘closed’ to new members and many closed to new accrual. Sponsors are currently seeking to make contributions as quickly as is reasonably affordable, with a view to being able to buy out all remaining liabilities through an insurer as soon as possible. Whilst on this ‘journey to settlement’ the SCR would appear to have no value (it adds no greater security for members than is already afforded by the sponsor support) and is a complicated and expensive set of values to calculate • We see no likelihood that the revised solvency regime will lead to a proliferation of cross-border arrangements (one of the Commission’s stated aims of the review). We believe that the onus is on the Commission to demonstrate that there is both a desire for such 	

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	<p>plans and that these proposals will facilitate delivery of them</p> <ul style="list-style-type: none"> • It is evident from the discussions with sponsors of IORPs that the Commission’s proposals will do nothing to promote the provision of defined benefit pensions. Quite the contrary, we know that this will further accelerate the shift from defined benefit to defined contribution offerings. Sponsors have finite resources. Where these are diverted to further bolster the existing security of defined benefit liabilities (for generally older employees and ex-employees), it follows that less is available to provide for the adequate retirement provision of younger and future generations of EU citizens. We see no evidence of systemic failures in existing Member States’ pension systems (something that we believe has been tacitly acknowledged by DG MARKT); the proposals appear to be EU-wide harmonisation for harmonisation’s sake. Worse, the real and significant cost associated with the upheaval will remove funds from EU citizens’ retirement provision 	