

Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II		Deadline 31 July 2012 18:00 CET
Name of Company:	Towers Watson GmbH, Germany	
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>We believe that the consultation has a number of fundamental weaknesses that we believe should be mentioned before going into "technical detail":</p> <ol style="list-style-type: none"> 1. The European Commission has rightly put the quest for a framework for enhancing adequate, safe and sustainable pensions in Europe on its agenda. We feel that the unflinching drive towards a Solvency II-based regime for IORPs may come closer to achieving one of these targets (safety), albeit to the detriment of the other two (adequacy and sustainability). 2. No reason is given for the excessive haste that EIOPA is demonstrating by deciding to contract the normal three month consultation period by 50%. The only reason given, namely the 	

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“imposition of an external timetable”, does not really sound sufficiently convincing. Bearing in mind the significance of the exercise for both beneficiaries and employers, the time allowed for comment is bafflingly short. The self-imposed timeframe has led to “slips of the pen” on the part of EIOPA: for example, it appears that references to subsections in QIS5 for Solvency II were copied into the IORP document where they are meaningless – for example, in SCR 5.82, reference is made to subsection V.1 which only exists in QIS 5.

3. However well-intentioned the objectives of EIOPA and the Commission are, we believe that the wider economic effects of the actions being planned are not being exposed to sufficient scrutiny. For example, it is a well-known fact that most employers have restructured their defined benefit (DB) plans in the last two decades into defined contribution (DC) or contribution-based (C-B) plans that grant, in general, less generous benefit levels than those promises made in the 1960s through to the 1980s. Most DB plans are thus in the run-down phase right now, so that the solvency requirements being proposed are “benefiting” a generation that has been granted higher levels of benefits than the following generation. Are the proposals being made not skewing this intergenerational imbalance even more?

4. We see our scepticism - as expressed in our first submission to the Commission’s Call for Advice – confirmed, namely that both the Commission and EIOPA are not taking due account of the differences between insurers and IORPS. These were fivefold:

- a. Business model
- b. Ownership structure
- c. Legal framework in respect of the underlying contracts
- d. Diversity in size of operation, benefits granted and environments in which they operate
- e. Risk profiles

An example in connection with (a) above might make some concepts in the pensions’ industry clearer:

In many cases (in Germany this is always the case) the pension promise - or informal practice that turns into a constructive obligation – is an obligation that is legally required to be fulfilled by the employer. Legally therefore, the obligation is subject to labour law and not commercial contract or insurance law; the IORP only acts as an agent of the sponsor in fulfilling his obligation. The obligation itself is not thereby fully discharged to the agent. The role of the IORP

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therefore is not to be a player in the pension product market. Attempting to achieve a level playing field between IORPs and insurers is therefore futile, because (to stay in the analogy) the two are playing different games on different fields. The question to ask is whether it is politically desirable to give up one game in favour of the other, thereby forcing a single game on a single playing field.

5. There are a number of difficult questions that require answering in respect of the characterisation of an IORP's benefits into "unconditional", "pure conditional", pure "discretionary" and "mixed" benefits. The rushed answers that can be expected to be given to these questions may turn out to be very different under thorough scrutiny.
6. We do not believe that it is fair on those IORPs participating in this consultation to provide answers to complex questions when the regulatory regime as such has not been presented in its entirety. For example, we understand that there is no mention of what measures are to apply if an IORP has insufficient capital when analysed by means of the HBS.
7. We believe that it is obvious that the additional cost of providing the information required will be significant in comparison with the benefit expected. We believe that this cost-benefit analysis can be made before actually incurring the additional cost.
8. We believe that the consultation document would be significantly enhanced if it would include examples so that respondents have more than a theoretical and abstract concept to comment on.
9. The calculations being required by EIOPA are no doubt complex. In fact, they appear to be more complex than those required for insurers, since the IORP requirements are those surrounding the Holistic Balance Sheet in addition to (largely) those required under Solvency II.

We consider that our letter of 11th June 2012 to Commissioner Barnier outlining a proposal for a new regulatory framework is more feasible to implement because it is less costly and more efficient in developing a common approach to regulation in Europe.

Although we respond below to the detailed questions, this is from a 'technical' perspective and should not be construed as being in agreement with the overall thrust of the consultation.

	<p align="center">Comments Template on CP-12-003 – Draft Technical Specifications QIS IORP II</p>	<p align="center">Deadline 31 July 2012 18:00 CET</p>
<p>Q1. <i>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?</i></p>	<p>We believe that the consultation has a number of fundamental weaknesses that we believe should be mentioned:</p> <ol style="list-style-type: none"> 1. The European Commission has rightly put the quest for a framework for enhancing adequate, safe and sustainable pensions in Europe on its agenda. We feel that the unflinching drive towards a Solvency II-based regime for IORPs may come closer to achieving one of these targets (safety), albeit to the detriment of the other two (adequacy and sustainability). 2. No reason is given for the excessive haste that EIOPA is demonstrating by deciding to contract the normal three month consultation period by 50%. The only reason given, namely the “imposition of an external timetable”, does not really sound sufficiently convincing. Bearing in mind the significance of the exercise for both beneficiaries and employers, the time allowed for comment is bafflingly short. The self-imposed timeframe has led to “slips of the pen” on the part of EIOPA: for example, it appears that references to subsections in QIS5 for Solvency II were copied into the IORP document where they are meaningless – for example, in SCR 5.82, reference is made to subsection V.1 which only exists in QIS 5. 3. However well-intentioned the objectives of EIOPA and the Commission are, we believe that the wider economic effects of the actions being planned are not being exposed to sufficient scrutiny. For example, it is a well-known fact that most employers have restructured their defined benefit (DB) plans in the last two decades into defined contribution (DC) or contribution-based (C-B) plans that grant, in general, less generous benefit levels than those promises made in the 1960s through to the 1980s. Most DB plans are thus in the run-down phase right now, so that the solvency requirements being proposed are “benefiting” a generation that has been granted higher levels of benefits than the following generation. Are the proposals being made not skewing this intergenerational imbalance even more? 4. We see our scepticism - as expressed in our first submission to the Commission’s Call for Advice – confirmed, namely that both the Commission and EIOPA are not taking due account of the differences between insurers and IORPS. These were fivefold: <ol style="list-style-type: none"> a. Business model b. Ownership structure 	

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- c. Legal framework in respect of the underlying contracts
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- An example in connection with (a) above might make some concepts in the pensions' industry clearer:
- In many cases (in Germany this is always the case) the pension promise - or informal practice that turns into a constructive obligation – is an obligation that is legally required to be fulfilled by the employer. Legally therefore, the obligation is subject to labour law and not commercial contract or insurance law; the IORP only acts as an agent of the sponsor in fulfilling his obligation. The obligation itself is not thereby fully discharged to the agent. The role of the IORP therefore is not to be a player in the pension product market. Attempting to achieve a level playing field between IORPs and insurers is therefore futile, because (to stay in the analogy) the two are playing different games on different fields. The question to ask is whether it is politically desirable to give up one game up in favour of the other, thereby forcing a single game on a single playing field.
- 5. There are a number of difficult questions that require answering in respect of the characterisation of an IORP's benefits into "unconditional", "pure conditional", pure "discretionary" and "mixed" benefits. The rushed answers that can be expected to be given to these questions may turn out to be very different under thorough scrutiny.
 - 6. We do not believe that it is fair on those IORPs participating in this consultation to provide answers to complex questions when the regulatory regime as such has not been presented in its entirety. For example, we understand that there is no mention of what measures are to apply if an IORP has insufficient capital when analysed by means of the HBS.
 - 7. We believe that it is obvious that the additional cost of providing the information required will be significant in comparison with the benefit expected. We believe that this cost-benefit analysis can be made before actually incurring the additional cost.
 - 8. We believe that the consultation document would be significantly enhanced if it would include examples so that respondents have more than a theoretical and abstract concept to comment on.
 - 9. The calculations being required by EIOPA are no doubt complex. In fact, they appear to be more

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	<p>complex than those required for insurers, since the IORP requirements are those surrounding the Holistic Balance Sheet in addition to (largely) those required under Solvency II.</p> <p>We consider that our letter of 11th June 2012 to Commissioner Barnier outlining a proposal for a new regulatory framework is more feasible to implement because it is less costly and more efficient in developing a common approach to regulation in Europe.</p>	
<p><i>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?</i></p>	<p>The suggested adjustments and security mechanisms are indeed one approach of taking these features into account. As mentioned above, there appear to be complexities arising as to exactly what benefits constitutes an unconditional, conditional, discretionary or mixed benefit. This inevitably leads to considerable scope for different Member States (or, within an individual country, different IORPs) to make their own judgements.</p> <p>As mentioned previously, we consider that a more inclusive process – along the lines undertaken in the Solvency II project for insurers – would be prudent. This would allow EIOPA and others to publish further guidance to ensure greater consistency.</p> <p>In our view, the issue of valuing ‘sponsor support’ needs more thought. In particular, it is by no means uncommon for an IORP not to have a ‘single’ sponsor, but several. For example, within a group environment there may be several IORPs sponsored by various entities within the group. It is also quite common for these group entities to be dispersed across Europe and beyond. Within groups there may be explicit or implicit cross-entity guarantees. How are these facets to be assessed in placing a value on sponsor support?</p> <p>Furthermore, the proposed approach to valuing sponsor support can indeed be termed technically precise. But will it really help in the event, if most of the data will be historical, sometimes quite old in fact? Also, arbitrarily determined variables are applied in a number of critical points, such as (amongst others) the 50% recovery rate (HBS 6.17); the assessment of future profits and sponsors’ earnings (HBS 6.36); the proportion of shareholder funds available for</p>	

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	<p>the IORP; the 50 bp adjustment to allow for the illiquidity premium (HBS 8.12); the inflation and salary increase assumptions (HBS 8.23 and 8.24, respectively); the mortality and longevity shocks of 15% and 20 % (SCR 7.17 and 7.29, respectively) and the figures in the counter-party default risk module.</p> <p>Recognising the scope for misleading precision in the calculation methodology, we consider that the QIS should consider other and simpler methods of taking account of these adjustments and mechanisms. One simplification that seems worth considering is to include only the maximum value of sponsor support and security mechanisms in the HBS. Only the gross SCR would be shown on the liability side (although see our earlier comments about the relevance of an SCR calculation for IORPs). The Towers Watson proposal of 11th June 2012 to Commissioner Barnier for a new regulatory framework went into this direction.</p>	
<p><i>Q3. Do stakeholders believe that the draft technical specifications provide enough information and are sufficiently clear and understandable? Which parts could be improved upon?</i></p>	<p>We consider that the technicality of the specifications will only be understood by a relatively small group of experts. This, in itself, might be unavoidable but should not be surprising. For this group of experts, however, a number of improvements can be made. For example,</p> <ol style="list-style-type: none"> 1. the derivation of many of the parameters and formulae should be explained, particularly regarding the RM (why 8%? Why a multiple of what is required for insurers) and the SCR (why a 20% longevity shock?), since their choice seems totally arbitrary now, 2. providing examples would significantly enhance the clarity and underlying purpose of the specifications, 3. the calculation of the value of sponsor support and pension protection systems explicitly take into account the risk margin as part of the technical provisions (cf. HBS.6.42, HBS 6.48 and HBS.6.74 stating that TP is to be calculated according to section 2.2-2.5, i.e. including the risk margin). On the other hand, according to SCR.1.3, calculations for the individual SCR modules are to be understood to exclude the risk margin – as this may have significant impact on the value of sponsor support, more clarity would be desirable here, particularly in view of the loss absorbing capacity of the security mechanisms, 4. there are a number of technical errors in the document that need correcting (for example, 	

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	<p>speaking of “defined benefit or hybrid schemes” should be corrected, because hybrid schemes are defined benefit – HBS 4.10 is incomplete, since contributions contractually due might not actually have been paid yet – an example of misleading accuracy is the increase in significant digits with increasing lower ratings in HBS 6.15 – “International Accounting Standards” do not exist for a large number of years now; they are called “International Financial Reporting Standards” – SCR 7.33, first bullet: to what does “best estimate” refer to?) and</p> <p>5. stating what the “ladder of regulatory intervention” is, when the HBS does not balance.</p>	
<p><i>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?</i></p>	<p>No. That is obvious for the 140,000 IORPs in Europe, unless “appropriate” is used in an unusual manner.</p> <p>We expect that a small number of the very largest IORPs might be able to carry out the calculations, although undoubtedly using significant simplifications and approximations. This is bound to introduce biases into the results of the QIS that could make the results difficult to interpret.</p> <p>We question whether the benefits of the Solvency II-based regime justify the costs and upheaval that the proposals will undoubtedly entail.</p> <p>The Towers Watson proposal of 11th June 2012 to Commissioner Barnier would avoid such disproportionate costs and let a new regime evolve over time.</p>	
<p><i>Q5. 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</i></p>	<p>Our experience with helping insurers understand and implement the requirements of Solvency II suggests that setting up valuation systems to carry out stochastic calculations for discretionary benefits would be a non-trivial and therefore costly exercise.</p> <p>We also repeat comments made earlier that</p>	

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<p><i>2? If not, which parts could be improved upon and in what way?</i></p>	<ul style="list-style-type: none"> • we doubt that – in places – the guidance is sufficiently detailed to result in consistent interpretations between IORPs and between Member States • a series of, increasingly sophisticated, QISs would be a much better approach. 	
<p><i>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?</i></p>	<p>As already mentioned, the derivation of the number 8% for the Risk Margin is unclear, in particular why it should be a multiple of what is required for insurers.</p> <p>For the valuation of sponsor support, two simplifications are proposed ('stochastic' and 'deterministic'). It is unclear to us whether the two simplifications will yield comparable results. First considerations suggest that the 'deterministic simplification' may not result in an additional asset in the HBS if assets are larger than technical provisions, while this seems to be possible in the 'stochastic simplification'.</p> <p>We question whether the 'stochastic simplification' of the valuation of sponsor support is stochastic at all – as the text provides a closed formula solution. We would also want to consider whether the proposed simplifications could go further, since we consider that complex formulae coupled with what appear to be arbitrary assumptions leads to misleading precision. Some significant testing is needed to see whether appropriate simplifications can be made in order to avoid misleading precision.</p> <p>The calculation of the value of pension protection systems as an asset in the HBS relies heavily on the calculation of the 'deterministic simplification' concerning sponsor support as it conceptually uses the same approach (and the same probability tree). Thorough testing seems to be necessary whether this calculation also fits to the 'stochastic simplification'.</p>	
<p><i>Q7. The best estimate of technical provisions should be based on the most recent mortality tables including the</i></p>	<p>We think this specification is clear.</p>	

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<p><i>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?</i></p>		
<p><i>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)?</i></p>	<p>The principles appear clear. The issue of unbundling unconditional, conditional, mixed and discretionary benefits is not, however. Furthermore, we question whether the cost of performing calculations for conditional, mixed and discretionary benefits is commensurate with the benefits of doing so.</p> <p>We welcome the specification in HBS.4.53, that defined benefits paid until the death of the beneficiary are not regarded as an implicit financial guarantee which would have to be valued separately as part of the technical provisions.</p>	
<p><i>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</i></p>	<p>We would consider that the approach is theoretically interesting and academically justifiable. We question whether the effort in being so mathematically precise here is commensurate with the cost.</p>	

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<i>support in general?</i>		
<p>Q10. <i>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?</i></p>	<p>As mentioned above, we do not really agree with this approach in principle and refer to the proposal Towers Watson put forward on 11th June 2012 to Commissioner Barnier in this context.</p>	
<p>Q11. <i>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)?</i></p>	<p>No.</p> <p>We believe that the above points are grounds for considering alternative approaches, and we draw EIOPA's attention once again to Towers Watson's letter of 11th June 2012 to Commissioner Barnier.</p>	
<p>Q12. <i>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.</i></p>	<p>We believe that using a kind of 'maximum value of sponsor support' is a more reasonable way to assess a sponsor's capability to provide additional support in case of demand than using a 'market consistent basis' approach. However, the derivation of the maximum value of sponsor support again suffers from a seemingly arbitrary choice of parameters (e.g. EBTDA, which can be very different und different accounting regimes, IFRS, US- or local GAAP) and for IORPs with several sponsors, collecting data from its various sponsors seems to be an undue burden.</p> <p>We again refer to Towers Watson's letter of 11th June 2012 to Commissioner Barnier in which an alternative approach is outlined.</p>	

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<p>Q13. <i>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?</i></p>	<p>We consider that EIOPA should consider all the options for taking into account the long-term nature of pension liabilities.</p> <p>Our immediate observations are:</p> <p>Counter-cyclical premium</p> <p>The proposal/option seems to suggest a uniform adjustment (50bp) across all Member States. We wonder whether this should not vary from Member State to Member State to take account of different yields on Member States' sovereign bonds.</p> <p>Matching premium</p> <p>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 doubt that such restrictive conditions are appropriate for IORPs.</p>	
<p>Q14. <i>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</i></p>	<p>We very much approve of including this approach for determining the discount rate. Indeed ,we would very much like to see this approach developed so that it can become the primary method for determining the technical provisions. By doing so, IORPs will be encouraged to continue to develop a more diversified investment strategy, thereby reducing systemic risk in investment markets. We consider that IORPs are well placed to be able to invest in assets that support economic growth, business investment and jobs (including infra-structure projects and European 'project bonds'), in line with the 2020 Growth Strategy .</p> <p>However, we suggest that the proposed approach to derive the level B discount rates should be refined to take account of the range of investment strategies available to IORPs.</p>	
<p>Q15. <i>Do stakeholders agree that the draft technical specifications</i></p>		

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<p><i>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 expected inflation implied by financial markets? Could you explain?</i></p>	<p>It is apparent, that these variables were picked arbitrarily. Their fixing is in stark contrast to the intricate approach adopted in other areas of the specification in the name of achieving market consistency. We would even state that doing so renders the whole regulatory construction obsolete, because the model is thereby simply rendered inconsistent.</p> <p>We strongly believe that significantly more work is required here.</p>	
<p><i>Q16. 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?</i></p>	<p>Although we recognise that a formulaic approach to all intricate details of the SCR is difficult, we consider that a rather less detailed approach would be more appropriate, in particular, focusing on the simplifications. Based on our experience in helping insurers understand and implement the requirements of Solvency II, we believe that the level of asset information is too detailed. Thus, for example, for the calculation of the Market Spread Risk within the SCR, the relevant information is required on a bond-by-bond basis, something only the largest of funds will have readily available.</p> <p>As already mentioned, we believe that worthwhile simplifications could be made in many other areas.</p>	
<p><i>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?</i></p>	<p>As mentioned in our general comments at outset, we consider calculating the SCR and MCR to have little benefit and significant cost, particularly as the 'ladder' of intervention' is not specified and a definition of appropriate own funds is not part of the QIS specification (in contrast to QIS5 as part of Solvency II).</p>	
<p><i>Q18. Do stakeholders believe</i></p>	<p>As already mentioned, we believe that loss-absorbing capacity can be taken into account much</p>	

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<i>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?</i>	<p>more simply and adequately.</p> <p>However, even within the presented framework of the QIS, many questions remain unanswered. In particular, should the existence of a sponsor (with sufficient capacity to pay) and a sufficiently strong pension protection system result in an SCR of zero, as it is indicated in HBS.6.87 (and HBS.6.56)? If this is the case and known a priori it is, in such a situation, still desirable to do tedious calculations at potentially very high costs, just to compute a result that is known in advance?</p>	
Q19. <i>Do stakeholders believe that the calculation of SCR in the Operational risk module (Section 3.3) is adequate for IORPs?</i>	<p>Even though the operational risk module is a comparatively small element of the overall SCR, we believe it too is 'over-engineered', representing another component pointing to misleading precision.</p>	
Q20. <i>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?</i>	<p>The proposed simplification for the longevity risk calculation in SCR 7.33 appears to be an excessively conservative reflection of the change in liability due to a longevity shock.</p> <p>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.</p>	
Q21. <i>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?</i>	<p>No. In particular we consider that the 50% sponsor support is arbitrary. It fails to capture the multi-dimensional nature of sponsor support and therefore risks substantially misleading results.</p>	
Q22. <i>Do stakeholders believe that</i>		

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<i>the calculation of SCR in the Benefit option risk sub-module (Section 3.7) is adequate for IORPs?</i>	We suggest that it would be beneficial if this sub-module were re-drafted so that it is directly applicable to the benefit option risks of IORPs.	
<i>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?</i>	Our experience with implementing Solvency II leads us to conclude that the 'basis risk' requirements are onerous. We also consider that the consultation document fails to recognise dynamic hedging as a valid risk management technique.	
SCR 7.44 to 7.60	It appears that EIOPA has used an old version of the QIS 5 for insurers here. It would be good to have this brought up to date too if the general thread of upholding Solvency II as a starting point and, in particular, explained why such an individual-by-individual valuation should make sense for IORPs, if it does not make sense for insurers.	