| Comments Template on<br>Consultation Paper on Further Work on Solvency of IORPs | | Deadline<br>13 January 2015<br>23:59 CET |
|---|---|---|
| Name of Company: | Candriam | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment/response in the relevant row. If you have no response to a question, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.**<br><br>The numbering of the questions refers to **Consultation Paper on Further Work on Solvency of IORPs**. | |
| **Reference** | **Comment** | |
| General Comment | Candriam is an investment management company providing pension benefits to its employees in two European countries. We are offering support to and working in close cooperation with institutional clients involved in occupational retirement provision. For both reasons, we welcome the opportunity to express our views on EIOPA consultation on quantitative prudential supervision for IORPs.<br><br>Before all, it is important to keep in mind that no political agreement has been reached on balance sheet valuation for IORPs in general, should it be harmonization, market consistency or consistency with the insurance framework. We do not find it appropriate to continue working on valuation as long as the underlying principles are not set politically. | |

| | | |
|---|---|---|
| | We appreciate the mapping exercise of EIOPA on security mechanisms for pension funds across Europe, which illustrates the great diversity of pension arrangements in Europe. Given this diversity, we doubt that harmonizing prudential framework will result in a workable solution for pension management.<br><br>We also appreciate that EIOPA acknowledges that little information can be drawn from the first QIS, not only because stakeholders had not enough time to answer, but also because in most cases the holistic balance sheet (HBS) framework was simply not adapted. In particular, we believe sponsor support and pension protection schemes cannot be properly valued as a single figure by any mean, even for the simplest cases.<br><br>The focus on consistency with Solvency II framework has to be questioned. Solvency II combinates the complexity and volatility of market consistent valuation and the opacity of market inconsistent methods because of the introduction of many additional balancing measures. It has not been implemented yet. Although the efficiency of the system is not clear yet, we can already measure partly the huge costs it is related with. The implementation of a market based solvency regime with extremely conservative capital requirements would make the overall system much more expensive to finance, with possibly adverse consequences. Sponsors would be faced with increased funding requirements, which would harm their investment and employment capacities and further limit their capacity and willingness to provide adequate pensions. IORPs could also be deterred to have a long term investment approach.<br><br>A prudential system which is not laid on a firm political basis, not properly designed for pension management and excessively complex will not be helpful but detrimental to members security and economic efficiency. | |
| Q1 | **Do stakeholders think that the word “contract” is an adequate description of the characteristics of the set of rules and arrangements governing the provision of benefits to members and beneficiaries by an IORP?** | |

| | | |
|---|---|---|
| | Although the word contract is not always wrong, we believe it biases the actual nature of the pension agreement between the different stakeholders. In a broad sense, it should be viewed as a “social contract”, not a commercial contract, because, importantly, most of times an IORP cannot enroll new members out of an employement relation and the various stakeholders negociate over time to ensure the scheme evolves properly. | |
| Q2 | | |
| Q3 | | |
| Q4 | | |
| Q5 | **Do stakeholders think that unilateral rights (or obligations) of an IORP to terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk should be the basis for a definition of contract boundaries for IORPs? Are there cases where such rights (or obligations) should be the basis for a definition of contract boundaries for IORPs even though they are not unilateral rights (or obligations) of the IORP, but can be exercised unilaterally or jointly by other parties (possibly together with the IORP)?**<br><br>The definition fits the situation in some countries and not in some others. The definition should be extended to the rights of the sponsors since in many cases the sponsor can unilateraly decide to cease new accruals. | |
| Q6 | | |
| Q7 | | |
| Q8 | | |
| Q9 | | |
| Q10 | | |

| Comments Template on<br>Consultation Paper on Further Work on Solvency of IORPs | | Deadline<br>13 January 2015<br>23:59 CET |
|---|---|---|
| Q11 | **Do stakeholders believe that the contract boundaries could be defined based on future benefit payments rather than contribution or premiums?**<br><br>The answer depends on the nature and content of the pension arrangement. | |
| Q12 | | |
| Q13 | | |
| Q14 | | |
| Q15 | | |
| Q16 | | |
| Q17 | | |
| Q18 | | |
| Q19 | | |
| Q20 | | |
| Q21 | | |
| Q22 | | |
| Q23 | | |
| Q24 | | |
| Q25 | | |
| Q26 | | |
| Q27 | | |
| Q28 | | |
| Q29 | | |
| Q30 | | |
| Q31 | | |
| Q32 | | |

| | | |
|---|---|---|
| Q33 | | |
| Q34 | | |
| Q35 | | |
| Q36 | **Do stakeholders agree that at the EU level, there should only be a principle based approach to valuing sponsor support with the specifics being left to member states/supervisors and/or IORPs?**<br><br>Given the diversity of pension arrangements and nature of security, we agree balance sheet valuation in European prudential regulation should be principle based with the local supervisor left to provide more detailed guidance.<br><br>This is especially true for the inclusion or not of sponsor support in prudential balance sheet and if needed, a valuation framework, as we doubt sponsor support could be effectively captured by a single figure. | |
| Q37 | **Do stakeholders agree with the overarching principle that the valuation of sponsor support should be market consistent? If not, what principle(s) would you suggest?**<br><br>We doubt sponsor support could be effectively captured by a single figure, whatever the underlying principle of valuation.<br><br>The model proposed in the QIS to value sponsor support included many arbitrary parameters, did not fit actual IORPs sponsors environment and did not give any information on the variety of sources of funding.<br><br>Should sponsor support be valued, we do not believe that it should and could be market consistent. If so, we will end up with an artificial market valuation, because for example there is neither a market for the financial support of a network of universities or a country-wide economic sector made of small companies such as barbers, nor for a working life long guarantee depending | |

| | | |
|---|---|---|
| | on political parameters such as retirement age. We also expect other unworkable adjustments to come at a latter stage such as those included in Solvency II, which are only included to move away from the theoretical market valuation. | |
| Q38 | | |
| Q39 | **What is the general view of stakeholders with regard to sponsor support as a balancing item?**<br><br>Should sponsor support be valued, we believe balancing item is essential for proportionality reasons. In many cases, a valuation exercise will not give more insight than a simple balancing item, either because the results will be around the same or because the valuation is flawed. | |
| Q40 | **Which conditions should apply for sponsor support to be treated as a balancing item?**<br><br>No condition should necessarily apply, or this should be left to member states choice.<br><br>However, a general assessment of the sponsor support to the scheme (not only the financial capacity but also the means devoted to ensure benefits will actually be paid), among other aspects, could be included to evaluate the soundness of a recovery plan. It is already the case in several countries in Europe. | |
| Q41 | | |
| Q42 | | |
| Q43 | | |
| Q44 | **Should considering a pension protection scheme as a balancing item be restricted to cases where a pension protection scheme protects 100% of benefits or is it appropriate to allow for the reduction in benefits in case of sponsor default where there is a pension protection scheme in place?**<br><br>Valuing a pension protection schemes is a complex issue that should be left to member states. | |

| | | |
|---|---|---|
| | | |
| Q45 | | |
| Q46 | **Do stakeholders agree that technical specifications should allow for a principles-based, IORP specific valuation of sponsor support? Please explain.**<br><br>We doubt sponsor support could be effectively captured by a single figure, whatever the underlying principle of valuation. The soundness of a funding policy is what really matters and can include an assessment of affordability.<br><br>Should sponsor support be valued, technical specifications should be principle based, in order to allow for the diversity of types of sponsor support arrangements in Europe to be considered. | |
| Q47 | **In what areas of valuation of sponsor support would it be most useful for EIOPA to specify guidance? Please explain and describe the possible contents of such guidance.**<br><br>As we already stated in other consultations, none of the presented models for valuing sponsor support seems to be workable. In a limited number of cases, “Alternative Simplified Approach” can give an indication of the sponsor strength relative to a funding need. It can be helpful for affordability assessment purpose, though all the following valuation model seems indeed quite arbitrary. | |
| Q48 | | |
| Q49 | | |
| Q50 | | |
| Q51 | | |
| Q52 | | |
| Q53 | | |
| Q54 | | |

| | | |
|---|---|---|
| Q55 | | |
| Q56 | | |
| Q57 | | |
| Q58 | | |
| Q59 | | |
| Q60 | | |
| Q61 | | |
| Q62 | | |
| Q63 | | |
| Q64 | | |
| Q65 | | |
| Q66 | | |
| Q67 | | |
| Q68 | | |
| Q69 | | |
| Q70 | | |
| Q71 | | |
| Q72 | **If it was decided to establish EU capital/funding requirements as part of pillar 1, would there in the stakeholders' view be a role for the holistic balance sheet? Please explain why and, if yes, what that role should be**.<br><br>We are not in favour of EU capital/funding requirement for IORPs and no political agreement seems even close to be achieved on this issue.<br><br>The QIS demonstrated that in most cases the HBS failed to provide sensible valuations.The artificial complexity, the embedded inconsistencies and circularities make it opaque and unworkable. The different types of pension arrangements in Europe and consequent | |

| | | |
|---|---|---|
| | interpretations have made the results impossible to compare between countries. And the HBS– like the market value of a long term benefits – is too complex to be useful information for members and beneficiaries.<br><br>We think therefore the HBS will not yield sensible valuations, so it is not adapted for pillar 1. For the same reasons, we do not see the benefits of using the HBS for pillar 2. Considering the complexity of the valuations and the numerous arbitrary parameters involved, we reject the idea of using the HBS for pillar 3 purpose as it will not be informative for most of IORPs members. | |
| Q73 | **Do stakeholders believe that the holistic balance sheet should be used as a risk management tool as part of pillar 2 requirements? Please explain.**<br><br>As it has proved to be inefficient for valuation purpose, the HBS should not be used as a mandatory tool for risk management. EIOPA could propose a revised and simplified HBS to the IORPs who want to use it but risk management details should be left to member states in order to be adapted to local specificities. Pillar 2 requirements at EU level should remain principle based. | |
| Q74 | **Do stakeholders agree that the outcomes of a pillar 2 assessment should be publicly disclosed as part of pillar 3 requirements?**<br><br>The issue of IORPs solvency is very complex and we believe most members and beneficiaries would not understand the functioning of pillar 2 assessment. For this reason, the disclosure of pillar 2 would not improve members protection. It would be more sensible to provide clear information on the member on his/her pension promise and general security mechanisms that will help meeting the promise. | |
| Q75 | | |
| Q76 | | |
| Q77 | | |

| Comments Template on<br>Consultation Paper on Further Work on Solvency of IORPs | | Deadline<br>13 January 2015<br>23:59 CET |
|---|---|---|
| Q78 | | |
| Q79 | | |
| Q80 | | |
| Q81 | | |
| Q82 | | |
| Q83 | | |
| Q84 | | |
| Q85 | **In the stakeholders' view should the minimum requirement for the level of liabilities to be covered with financial assets be based on the Level A technical provisions or the Level B best estimate of technical provisions? Please explain.**<br><br>Determining the applicable discount rate should be left to member states.<br><br>Discount rates different from level A/B are possible, for example a stable discount rate materialising inflation plus a long term interest rate, in line with the UFR proposed by EIOPA. It could mean a fixed discount rate, a discount rate based on long term average of economic value or an average between a fixed rate and a market rate. | |
| Q86 | | |
| Q87 | | |
| Q88 | | |
| Q89 | | |
| Q90 | | |
| Q91 | | |
| Q92 | | |
| Q93 | | |
| Q94 | | |

| | | |
|---|---|---|
| Q95 | | |
| Q96 | **Do stakeholders agree that IORPs should be required to submit a recovery plan if capital/funding requirements are not met or should more specific supervisory responses be specified on the EU level? Please explain**.<br><br>When funding requirements are not met, a recovery plan should be prepared, given the broad definition of a recovery plan. However, we are not in favour of basing funding requirements on the HBS. However, we believe supervisory responses should not be specified at EU-level but determined by local regulators in order to fit a local context. | |
| Q97 | | |
| Q98 | | |
| Q99 | **Do stakeholders have any general comments on (the description of) example 1?**<br><br>We believe several parts of the HBS cannot be sensibly calculated. In particular, we doubt one could give any realistic valuation of sponsor support. Enterprise valuation is quite a complex matter, for example, to our knowledge, around half of the mergers and acquisitions fail to produce expected results, what certainly shows that even professionnals may not properly evaluate enterprises. The case of schemes sponsored by multiple employers, multinational companies and state related companies is even more complex.<br><br>Example 1 does not fit the purpose of providing long term benefits by any mean. First, the one-year time recovery is not a sensible horizon to restore funding level because in general scheme members cannot leave the plan before retirement age without enduring severe reduction of their pension rights. It is therefore more sensible for members and sponsors to spread recovery over time. A 1 year time horizon could have a disastrous financial impact on sponsors and pensioners if benefits can be reduced.<br><br>Second, as of now the cost of financing pensions in this framework would deter sponsors to | |

| | | |
|---|---|---|
| | provide any form of guarantee to their members, which would be detrimental to the promotion of a strong second pillar in Europe.<br><br>Third, the combination of volatile market valuation and short time recovery period could lead to short termism of pension institutions. Long term investments would be hampered by such a framework. | |
| Q100 | **Could example 1, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU. | |
| Q101 | **Do stakeholders have any general comments on (the description of) example 2?**<br><br>Example 2 allows for more flexibility in funding pensions commitment because of the leeway in determining recovery periods and the discount rate related with asset allocation. However, the use of expected return on assets should not allow to compensate a funding shortfall by an increase in asset risk, although this point is already watched in current supervisory system.<br><br>We also insist that according to their national preferences some countries may be in favor of market rates to discount liabilities. This choice should remain open. | |
| Q102 | **Could example 2, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU. | |
| Q103 | **Do stakeholders have any general comments on (the description of) example 3?**<br><br>We insist valuation method specificities should be left to member states.<br><br>A two steps approach looks sensible: first determining the funding position according to national | |

| | | |
|---|---|---|
| | methods, second challenging the valuation with a few stress tests for risk management purpose. However, we do not believe market valuation and the HBS are always adapted for this purpose. | |
| Q104 | **Could example 3, in the view of stakeholders, be used for all IORPs in the EU, taking into account national specificities?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU and strongly support the idea of taking into account national specificities. | |
| Q105 | **Do stakeholders have any general comments on (the description of) example 4?**<br><br>We believe several parts of the HBS cannot be sensibly calculated. In particular, we doubt one could give any realistic valuation of sponsor support. Enterprise valuation is quite a complex matter, for example, to our knowledge, around half of the mergers and acquisitions fail to produce expected results, what certainly shows that even professionnals may not properly evaluate enterprises. The case of schemes sponsored by multiple employers, multinational companies and state related companies is even more complex. | |
| Q106 | **Could example 4, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU. | |
| Q107 | **Do stakeholders have any general comments on (the description of) example 5?**<br><br>We believe several parts of the HBS cannot be sensibly calculated. In particular, we doubt one could give any realistic valuation of sponsor support. Enterprise valuation is quite a complex matter, for example, to our knowledge, around half of the mergers and acquisitions fail to produce expected results, what certainly shows that even professionnals may not properly evaluate enterprises. The case of schemes sponsored by multiple employers, multinational companies and state related companies is even more complex. | |

| | | |
|---|---|---|
| | We do not think level A technical provisions are appropriate for all cases. | |
| Q108 | **Could example 5, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU. | |
| Q109 | **Do stakeholders have any general comments on (the description of) example 6?**<br><br>A two steps approach looks sensible: first determining the funding position according to national methods, second challenging the valuation with a few stress tests for risk management purpose. However, we do not believe market valuation and the HBS are always adapted for this purpose. | |
| Q110 | **Could example 6, in the view of stakeholders, be used for all IORPs in the EU?**<br><br>We strongly reject the idea of a single valuation framework for all pension institutions in the EU and strongly support the idea of taking into account national specificities. | |
| Q111 | | |