Resolutions on Comments on Consultation Paper on Further Work on Solvency of IORPs EIOPA-CP-14/040 General Comments	EIOPA-BoS-16/076 14 April 2016

EIOPA would like to thank OPSG (EIOPA Occupational Pensions Stakeholder Group), 100 Group of Finance Directors, aba (Arbeitsgemeinschaft für betriebliche Altersversorgung e.V), ACA, Actuarial Association of Europe, AEIP, AGV Chemie, ALSTOM, Aon Hewitt, Association of Pension Lawyers, Assuralia Belgium, Atradius Credit Insurance NV, BAPI, Barnett Waddingham LLP, BASF SE, BAVC, BDA, Better Finance, British Telecommunications plc, BT Pension Scheme, Candriam, CEEMET, CEEP, CIPD, Compass Group PLC, D & L Scott, EAPSPI, EEF, EVCA, Eversheds LLP, Evonik Industries AG, FFSA, FSUG, FVPK, GDFSUEZ, GDV, GE, GE Pension Trustees Limited, GESAMTMETALL, Heathrow Airport Limited, Hoechst-Gruppe VVaG (Pensionskasse der Mitarbeiter), IFoA, IVS, Jane Marshall Consulting, Lane Clark & Peacock LLP, Lincoln Pensions Limited, NAPF, Nematrian, Otto Group, Pensioenfederatie, Pension Protection Fund, PensionsEurope, PERNOD-RICARD, PricewaterhouseCoopers, PSVaG, Punter Southall, RPTCL, Siemens Pensionsfonds, Society of Pension Professionals, SUEDWESTMETALL, Towers Watson, United Utilities Group, USS Limited, vbm and ZVK-Bau

No.	Name	Reference	Comment	Resolution
1.	OPSG	General Comment	The OPSG has considered the consultation paper, prepared at its own initiative by EIOPA, which poses 111 questions on the possible use of the Holistic Balance Sheet (HBS), and detailed issues regarding the valuation of items which may be included in the HBS. A number of the issues considered were raised during the previous consultation and QIS, and the OPSG welcomes the further research undertaken and the additional policy options now being considered. The OPSG considers that the most important section is that dealing with the possible uses of the HBS, and the related questions 72 to 98. The key points which the OPSG makes in response to these questions are	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			I. The HBS cannot be used in Pillar 1 to set capital requirements or technical provisions or to determine the length of recovery periods in cases of "underfunding" II. The HBS could be a useful tool for risk management under Pillar 2 III. The HBS could provide useful information for members and beneficiaries on the security of the pension promise but this would have to be presented in a meaningful way. The OPSG is of the view that if an HBS is to be constructed, the technical provisions to be covered by financial assets (Q85) should in general be determined by reference to the expected return on assets (Level B) rather than by using a risk free rate (Level A). The OPSG considers that if Level A technical provisions were imposed on an EU wide basis, there would be a significant impact on existing "contractual agreements" in many Member States (Q97) and that lengthy transitional periods, and/or grandfathering provisions, would be necessary in this scenario (Q98). The OPSG is supportive of proposals that the approach to valuation of elements of the HBS, and its use, should be at the option of Member States, subject where appropriate to overarching UE principles (e.g. Q37 and 46 re sponsor support). This would enable the specificities of IORPs in different member states, and the relevant national social and labour law to be appropriately taken into account. The OPSG is also strongly of the view that the proportionality principle	

			must be applied where possible, especially given the high number of small and medium sized IORPs in the EU, for whom lengthy and complex calculations would impose an excessive burden. Simplifications should also be permitted where possible and appropriate e.g. by treating sponsor support and/or pension protection schemes as balancing items (Q39 and 71).	
2.	100 Group of Finance Directors	General Comment	About The 100 Group of Finance Directors The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent around 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2013 paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance. This consultation is not the right priority for EIOPA Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, we are very disappointed that EIOPA is nevertheless continuing with work on the holistic balance sheet on its ‘own initiative’ without the EC’s mandate. We do not believe that this is the right priority for EIOPA to be pursuing. EIOPA’s focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states	Noted.

			(namely defined benefit IORPs). We therefore believe that EIOPA should drop its work on the holistic balance sheet altogether. Given the increasing trend towards defined contribution pension provision, a much better focus would be on developing a framework for strong principles-based defined contribution governance standards across the EU. The UK has already been involved in developing its own governance regime, which could contribute to the development of best practice guidance across Europe. Solvency funding would be damaging for pensions, sponsors and the economy The 100 Group remains opposed to the idea of applying a regime based on Solvency II to IORPs (and to the use of the holistic balance sheet as a mechanism for applying such a regime). We believe that this will be damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. It would also discourage other countries from establishing defined benefit provision. We believe that this cuts directly against the EC's goal of ensuring adequate pension provision across the EU. The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with lower assets to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their	

			pension schemes on a solvency basis, it is likely to mean that they will be unable to compete effectively with non-European companies. As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This and could lead to significant market distortions and runs counter to the EU's current focus on encouraging long-term market investment. EIOPA should be aware that the impact of implementing its holistic balance sheet could go far beyond individual pension schemes. A full impact assessment would be needed before any steps could be taken on any of the options in the consultation paper to identify possible impacts on pension schemes and sponsoring employers, and also on wider long-term investment trends. Sponsor support cannot be valued as a single figure One of the aims of the consultation is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We believe this to be an essentially misguided aim. The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer or employers, and on the situation of both the scheme and the employer(s). For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is	

			being run on an ongoing basis with contributions continuing to come in. In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are spurious and misleading. Such a single figure would ignore, for example, subtleties such as negative pledges and dividend policies, which may well provide significant protection that funding will be available to a pension scheme in the long term without being captured at all by the single figure approach. Covenant assessment requires the exercise of expert judgement in specific circumstances, rather than blind reliance on a model to produce a single number. Further, the existence of a single figure for the commitment of an employer to their pension scheme would inevitably feed into the rating agencies' assessments of a company's strength. Whilst we accept that it is right that an employer's commitment to their pension scheme should form part of an assessment of a corporate's financial position, we believe that there is a risk that the number calculated under the holistic balance sheet may be misleading and lead to inappropriate reassessments of a company's financial strength, for example leading to a higher cost of capital. Alternatively, the single figure approach could lead to an undervaluing of the real risk that a pension scheme presents to the continued existence of its sponsoring employer.	

			In our view, an approach under which sponsor support is assessed in qualitative terms will be both more useful from the point of view of the trustees of the pension scheme, but also from the perspective of rating agencies assessing the strength of the company. The valuation of sponsor support will be expensive As noted above, trustees of IORPs already carry out often extensive work to assess the sponsor covenant. They are likely to continue to need to do so, even if a single figure approach is introduced by EIOPA (given that the single figure approach will not be able to replace the sophisticated assessments that currently take place). If some of the proposals in this consultation were adopted, IORPs would therefore face the additional expense of having to carry out a separate single figure valuation of the sponsor support to plug into the holistic balance sheet. Such calculations would be time-consuming and use resources that could be better applied in improving the funding position of the IORP rather than in paying the costs of advisers. The consultation contains some welcome options We believe that the holistic balance sheet would be unnecessary, expensive and probably damaging both to pension schemes and to the sponsors who provide them. We recognise, however, that EIOPA has gone some way to addressing these serious concerns by considering	

			allowing a principles-based assessment of sponsor support and/or for sponsor support to be included in the holistic balance sheet simply as a balancing item, by proposing an option of allowing the holistic balance sheet to be used purely as a risk management tool, and by introducing the possibility of a transitional regime in the event of a holistic balance sheet being introduced. In the event that EIOPA continues with its plans for a holistic balance sheet, we would urge EIOPA to develop these ideas further to make sure that the holistic balance sheet, if introduced, would not bring in deleterious consequences for pension schemes and the employers who sponsor them. The case for the holistic balance sheet has not been made However, we think that neither the European Commission nor EIOPA has still not made the case, either practically or intellectually, as to why the holistic balance sheet needs to be introduced. What are the fundamental concerns that the holistic balance sheet would be addressing? What would the consequences be of retaining the status quo? The UK pensions regime has been resilient during tough economic conditions In the UK, for example, the combination of a strong regulator, a practical funding regime that recognises the need of both pension schemes and their sponsoring employers, good trustee governance	

			and the ultimate protection of the Pension Protection Fund had provided a durable and resilient framework even in the most extreme economic conditions. The holistic balance sheet could actually undermine and even conflict with strong existing requirements at member state level. EIOPA should therefore consider the benefits of dispensing with the holistic balance sheet altogether. It is inappropriate that retaining the status quo is not even considered as one of the six examples in the last section of the consultation paper. Our response We have commented on a few of the specific questions asked by the consultation, but have not focused on the technical detail. Our silence on a particular question should not be taken as assent, nor should the fact of us responding to this consultation at all be taken as us agreeing to the concept of the holistic balance sheet or to the placing of a single value on sponsor support.	
3.	aba Arbeitsgemeinschaft für betriebliche Altersve	General Comment	About the aba The aba - Arbeitsgemeinschaft für betriebliche Altersversorgung e.V. - is the German association representing all matters concerning occupational pensions in the private and public sector. The aba has 1,200 members including corporate sponsors of pension schemes,	Noted.

			IORPs, actuaries and consulting firms, employer associations and unions, as well as insurance companies, banks and investment managers. According to our statutes, our mission is to represent existing schemes as well as to expand coverage of occupational pensions independent of vehicle. I. Introduction The presented paper on Further Work on Solvency of IORPS summarizes the discussion results of the last years around a "Solvency II-like" approach for IORPs using the Holistic Balance Sheet (HBS) methodology. On the one hand the consultation paper outlines different options for the various elements of the HBS. On the other hand, options describe how quantitative results could be used for regulatory purposes depending on where (Pillar 1 or Pillar 2) and how they are applied. It must be noted first and foremost that EIOPA is not presenting any alternatives to the general HBS approach. This implies that EIOPA thinks that this methodology will be required in one or another form. This contradicts the recent version of the IORP II directive proposal which does not justify any quantitative requirements based on the HBS approach, regardless for which Pillar. It also appears to run counter to how EIOPA allegedly is presenting itself as being open to various alternatives and as not prejudging which options should be applied and whether a very harmonized regulation shall be implemented across Europe or whether there are Member State options to adopt the rules to the national requirements. The fact that EIOPA recognizes that this work is done at its own initiative does not solve this issue.	

			II. No additional requirements which do not make occupational pensions more secure but add extra cost Every move towards a system that places more unnecessary burdens on IORPs and their sponsoring undertakings must take into account that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this important social benefit. This is even more the case in Member States like Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. As a result, higher costs either on the employer's or on the employee's side are likely to lead to a decrease in benefit level and coverage of occupational pension plans – without making them any more secure than they are today. From our perspective it is right that the experience of the financial crisis led to an analysis of systemic risk in the financial markets. In the area of banking, this has led to additional regulation: because banks lend money to each other, the default of one bank makes the default of other banks more likely. These links between banks have been addressed by regulation. However, from our perspective it is not right to now apply similar regulation to insurance companies and IORPs. Neither insurance companies nor IORPs lend money to each other; one institution going bankrupt does not increase the likelihood of other institutions going bankrupt as well. Beyond this, IORPs (in contrast to insurance companies) benefit from a guarantee given by the	

			sponsoring employer, and are governed by social and labour law. Therefore, it would neither increase financial stability nor the security of occupational pensions to introduce Solvency-II-style capital requirements – it would only add additional costs. We strongly oppose the introduction of any new requirements which do not make occupational pensions more secure but add extra costs, because these additional costs would make it less attractive for employers to offer occupational pensions, as already stated above. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if sponsors invest in their own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP when an (“artificial” short term) underfunding situation occurs (p. 71 EIOPA Consultation Paper). We overall would like to emphasise that our response, which discusses the specific points as raised by EIOPA, does not mean that we support the overall concept – we do not. III. Why the HBS is not a suitable regulatory instrument We recognize that EIOPA has tried to address our previous criticism that the Solvency-II-approach does not do justice to the special characteristics of IORPs. The current Consultation Paper undertakes an attempt to improve on the shortcomings of the HBS approach in particular on the valuation of sponsor support by delivering further valuation approaches (i.e. the balancing item approach) and it tackles the urgent question of how the HBS approach is going to be used as a regulatory instrument.	

			We welcome that EIOPA for the first time discusses the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide rules for SCR, tiering of assets, recovery period) although we think that should have been answered on a much earlier stage before all the in-depth-analysis of the HBS elements. No recognition of social and labour law Despite these improvements, we not only oppose the general idea of introducing new solvency requirements for IORPs, but also the HBS approach as proposed. It must be noted that the HBS approach does not adequately account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Discussing the EU's existing supervisory architecture (European system of financial supervisors; ESFS), occupational pensions were only mentioned in the De-Larosière-Report from 2009 in relation to IAS 19; in a speech by Jacques De Larosière at the Public Hearing on Financial Supervision in the EU they were not even mentioned (Public hearing on Financial Supervision in the EU, Brussels, 24 May 2013). On this background it is presumptuous that the EIOPA Consultation suggests that Member States should adjust their national social and labour law so that it would be compatible with potentially new prudential regulation: "If EU prudential requirements were amended, Member States may need to adjust their social and labour law in order	

			to ensure that their overall framework continues to reflect the previously agreed objectives." (p. 114 EIOPA Consultation Paper). We strongly oppose the idea that prudential law should trump social and labour law. The "balancing item approach" and the valuation of sponsor support We in general welcome the introduction of the "balancing item approach" (BIA), with respect to sponsor support in combination with a model which is similarly simple as the PwC model ("M" approach) and which would not require calculating the HBS (for the "M" approach this is needed), but rather rely on a simpler measure (e.g. technical provisions). But we strongly suggest – if the HBS should be introduced at all – that in cases of a strong sponsor, a multi-employer-scheme (MES) or existence of other security mechanism) as balancing items, that there should be no requirement to explicitly set up an HBS. In particular, these factors not should lead to any Solvency II-style capital requirements. The rationale is that in the cases of the application of the BIA the strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation (incl. using the risk free interest rates) is not needed anymore because the strength of the sponsor avoids the necessity of a transfer of the IORP's assets and liabilities and further concrete quantifications seem to be superfluous. Especially in the case of MES the BIA captures the notion that a large number of sponsors in the end is in charge of the settlement of pension claims (= HBS) and also serves as cushion for adverse developments (=SCR). This illustrates the flexibility of the sponsor support of MES IORPs and delivers a flexible protection of pension	

			claims acting in solidarity. In those cases where the HBS approach includes existing security mechanisms such as sponsor support, pension protection schemes, benefit reductions and where the HBS is used to trigger regulatory actions (recovery plans) the question remains: which regulatory options are available within a recovery plan at all in case of a shortfall within the HBS since all security mechanisms are already included? Market consistent valuation: Not appropriate and not necessary for IORPs We generally consider the so-called market-consistent approach inadequate for liabilities with such long durations. Any valuation and risk management that is based solely on a market value approach sets the wrong incentives for those running the institution. Such a valuation would be extremely volatile, pro-cyclical, and based on a cut-off date; it would use the modelled view of an external investor and would therefore not take into account the specifics of most IORPs. The one-year-perspective and a consequent mark-to-market valuation (of liabilities) would lead to a completely wrong assessment of the situation. Mark-to-market sets short-term and therefore undesirable incentives for the management. This type of valuation could harm solid and long-term planning, as well as risk analyses and related calculations. It would therefore not contribute to more security for the beneficiaries. And in addition a transfer of liabilities to other market actors (see i.e. EIOPA 5.83) is – unlike in the insurance sector – not relevant because	

			of the existing security mechanisms of IORPs which are actually to be assessed by the HBS. In particular, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, for occupational pensions labour law does not allow early cancellations. By maintaining the Solvency II structure, the HBS itself is not an appropriate approach for IORPs. The fact that security mechanisms of occupational pensions are considered at a later stage may not solve this general problem. Sustainability and transparency We understand that for EIOPA these two goals are essential and related to each other. We share these principles, but the instruments of the HBS approach are not appropriate to reach them. Regarding sustainability, we do not feel that the push towards DC which the HBS would bring about (see below) would make the overall pension system more sustainable – to the contrary. Transferring the risks to those who are least able to bear them, i.e. individuals, is socially not desirable. We generally support transparency, but we do not think that the HBS approach is the right way to support it. Because of the increasing number of valuation methods and options with respect to recognised cash flows used within the HBS, the HBS gets more and more complex and does not lead to more transparent and comparable results (see 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given the modelling approach).	

			Transparency in the second pillar is not the same as in the third pillar – or, in other words, as for financial products. We are aware of the trend towards DC, however, we would like to point out that in many EU Member States there is a large legacy of DB schemes which will pay out pensions over decades to come. In addition, there isn't only pure DC, but also hybrid schemes where the risk is shared between the stakeholders. In Germany for example, there are currently no pure DC schemes at all, the employer is always liable to ensure that the pension promise made is kept. This means the employer has a strong interest that the IORP is efficient and sustainable. With these mechanisms, the need for detailed information for the beneficiaries is reduced. Transparency requirements therefore need to be tailored to fit those schemes – they cannot just be copied from financial products. In addition, we would also like to point out that transparency needs to be treated carefully in this context. Sponsor support is an important security mechanism for IORPs. However, publishing detailed information around a specific situation might impact on the rating of the sponsoring employer. Second, if the members and beneficiaries e.g. do not have any choices regarding the investment strategy, there is little benefit in informing them about the funding ratio and potential measures taken to address underfunding. When occupational pensions are provided by the employer to the employee, there is no need to publish certain information like detailed cost information. The employer is not competing with pension providers to win the most customers, but rather providing a social service to their employees, which in Germany is governed by labour and social law. It is important to disclose certain information to the national supervisor (in Germany BaFin), but not to the public.	

			The HBS dilemma: if it is sound, it isn't practical; and if it is workable, its results are questionable While without doubt EIOPA has invested a lot of time in the HBS, we do not think that the presented concept is to any degree satisfactory: the parts which are intellectually coherent are impossible for IORPs to comply with given their limited resources (stochastic modelling, also some of the simplifications); where simplifications have been introduced, the appropriateness of those simplified heuristics and the chosen parameters is doubtful and thus the intended goal of comparability of results is highly questionable (see again 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given different modelling approach). From a practical perspective more simplifications would be better – but even as it stands at the moment it is not clear what the derived figures would show and what they could be used for. This illustrates the dilemma of the HBS: to get the HBS workable simplifications are needed (as apposed to a precise valuation of IORP's security mechanisms), but that would challenge the whole approach. Thus even if we were supportive of the introduction of the HBS, this would not be a suitable approach. While we recognise that EIOPA has tried to incorporate some of the specific features of occupational pensions into the HBS, the approach remains completely inadequate as an instrument for the supervision of IORPs. IV. A supervisory regime sui generis for IORPs	

			We still agree with the general aim of the Commission in the Call for Advice of April 2011, according to which a risk-based supervisory system for IORPs should be developed – but in our opinion the IORP Directive (respective IORP II) should be the starting point. Thus we continue to be of the opinion that the supervision of IORPs requires a regulatory regime sui generis that truly accounts for the differences of IORPs and insurance companies. Due to the differences of pension schemes all over the EU (see below), we suggest to respect those differences among occupational pension systems in the different Member States when amending the regulatory framework. This approach is justified due to the basic differences between IORPs and insurance undertakings, as EIOPA itself has identified several times (in particular in the second consultation document on the review of the IORP Directive, EIOPA-CP-11/006, see 9.3.6 a – h as well as in other EIOPA documents and speeches). We have reservations that in spite of this commitment, the current EIOPA paper on further work on solvency of IORPs as well as EIOPA's discussion paper on sponsor support of 2013, the technical specifications for the IORP QIS from 2012 as well as EIOPA's previous consultations on the IORP review are built on the Solvency II principles and structure. V. EIOPA needs to recognise that occupational pensions are diverse across Europe We support the concept that Member States should be given sufficient leeway (e.g. regarding the recovery period and sponsor support as balancing item). In lines with the proposals in these areas, we support	

			a strengthening of the subsidiarity principle by allowing for options which give the Member States the responsibility for defining regulatory details which are in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. EU legislation should define clear borders between these different fields of law and the supervisory regulation should always be subordinated. In the German situation pensions are safeguarded already by labour, co-determination and social law. EIOPA should always bear in mind that in the diverse area of occupational pensions in Europe, it is beneficial to develop minimum requirements rather than aiming for full harmonisation. The HBS should not be used to lead to EU-wide harmonization of calculation of technical provisions (Level A or B technical provisions) especially for the reason of putative comparability for an internal market of pensions if this leads to a higher cost burden for employees and employers and detrimental effects in consequence. As EIOPA clearly analyses the result would be negative effects for occupational pensions, sponsors and economic growth (i.e. 5.86, 5.177, 5.179 and 5.188). We would also like to point out that Level B as is currently defined does not fit all pension schemes across Europe either. It must be noted that for Germany in almost all cases it would be a discount rate fixed by the national competent authority. In this context we welcome that EIOPA recommends using the principle of proportionality and the introduction of the balancing item approach: IORPs with certain characteristics would not have to make	

			detailed calculations to determine whether the HBS balances (p. 43). But we think that in these cases the strong sponsor should make up for explicit exemptions that should release from explicitly setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements. VI. The future of occupational pensions in Europe On a positive note, we welcome the recommendation to consider grandfathering, which would mean that the new prudential requirements would not apply to existing IORPs. However, we still see a number of issues for the future of occupational pensions if an HBS-style approach to solvency was introduced: ☐ With state pensions being scaled back in many EU Member States, we envisage a strong second pillar for the future, which supports individuals in closing the gap the reforms of the first pillar have presented them with. Policy-makers and supervisors both at the national and the EU level should do everything possible to ensure that the framework occupational pensions operate in is adequate to support this goal. However, we feel that the long-term implications from implementing an HBS-style approach would be different: to us it looks like EIOPA wants to support the trend towards DC, pushing those employers who are still offering DB schemes towards DC as well. Taking into account the described developments in state pensions, from a social policy perspective this is undesirable. ☐ In addition, we think that the current proposals would foster consolidation in the pension sector. While there are certain advantages	

			of larger schemes, e.g. economies of scale, we would like to warn that it is not desirable to grow schemes so big that their failure would cause a major crisis. We have seen the problems with institutions which are too big to fail – even though IORPs are fundamentally different form banks, they also do not benefit from a system with very few very large institutions. ☐ The consultation paper does not take into account any implications the HBS proposals and the supervisory response will have on what employers offer and how it affects coverage. To us it looks like EIOPA is assuming an occupational pension system where membership is mandatory. In many EU Member States this is not the case, and with further unnecessary burdens being imposed on employers offering occupational pensions, provision in those Member States is likely to go down. ☐ We doubt that the current suggestions will strengthen long-term investment or cross-border activity. The causalities presented in the paper are spurious. Finally and importantly, we do not envisage a future where the main concern of IORPs is how to comply with European legislation. Legislation should be designed in a way which allows IORPs to pursue their main objective: providing their members with a good value pension, so that poverty in old age is avoided and a large number of people can maintain a similar standard of living they used to have while working.	
4.	ACA	General	We strongly reject the idea of establishing EU capital/funding	Noted.

		Comment	requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed. Amending these has associated costs (both initial and ongoing) and no demonstrable additional benefit. It would also ensure that any existing DB plans were closed and that no new DB plans were opened. Any plan to harmonise regimes is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU.	
5.	Actuarial Association of Europe	General Comment	☐ Harmonisation vs Member State options (within principles based EU framework)? The pension deal between employer and employees/beneficiaries is the foundation for any framework. Leading principles should be: ☐ The pension deal is an arrangement established in the context of the occupational relationship between employer and employees under social, labour and pension law of the Home Member State – it is typically not legally comparable with an insurance contract. At least in some countries this is a fundamental difference. ☐ The pension deal is clear to all stakeholders, ☐ The value of the pension deal can be objectively measured (this could be a time-consuming process and the principal of proportionality might require simplifications and approximations especially in case of small and medium sized IORPs) ☐ The financing mechanism and the risks are clear to all stakeholders	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			☐ The development of the financing is monitored on the same objective basis ☐ The risks for the sponsor (if any), for the beneficiaries (if any) and for the IORP or insurer (if any) are identified ☐ These risks are clearly communicated ☐ Where the IORP or insurer has taken on risks, ensuring solvency in the form of capital or other commitments is needed o Many IORPs have not taken on risks other than operational risk ☐ As pensions are an arrangement between employer and employees it is principally them who should agree on the level of safety although this can be part of social and labour law in the Member State ☐ Harmonisation is about the valuation of the building blocks of the HBS. o Not about the pension deal as this is an agreement between employers and employees and governed by social and labour law of the Member State. ☐ Use of HBS in Pillar 1, 2 or 3? ☐ The HBS reflects all building blocks of the pension deal and the financing of it. ☐ The HBS is drawn up from the perspective of a member/beneficiary and is not a financial statement from the perspective of the IORP. ☐ The words Holistic Balance Sheet are therefore not	

			appropriately describing the meaning of it. We would propose to use the term Holistic Framework. ☐ For supervisory purposes the HBS needs to be decomposed into the parts that relate to the obligations/risks of the IORP, of the sponsor and to the risks of the beneficiary ☐ HBS could possibly be used in Pillar 3 regulation in order to quantify and describe the pension deal and its financing to the supervisor and the (representatives of the) beneficiaries. The HBS is highly technical and not all parts will likely to be publicly available. We view the HBS first of all as a possible part of communication between experts and not immediately as a suitable tool for communication with the beneficiaries. Of course the communication to beneficiaries could make use of the information from the HBS and translating that information in a meaningful way. ☐ HBS could be one of the tools to perform a risk evaluation for pensions (Pillar 2 regulation). The risk evaluation will likely go beyond the point of "just" a valuation at a certain point in time. In our view the risk evaluation for pensions should assess also future developments and include non-financial risks as well. This will in almost all situations link back to any communication/reporting in Pillar 3. ☐ As said before HBS reflect the full pension deal and its financing from a member's/beneficiary's perspective (see also the diagram) and	

			is not a balance sheet as such. It is a Holistic Framework that identifies all the different building blocks of a pension deal and how it is financed. In order to use it for Pillar 1 regulation only those numbers that reflect the funding/execution agreement with the IORP / are under the control of the IORP need to be extracted. It is this IORP-relevant subset of the HBS that could be used for Pillar 1 purposes. o As many IORPs are closer to a administrative body than to an insurer of pensions this should be reflected in any IORP assessment as well as in the communication to members/beneficiaries and sponsor o In those situations we expect the capital requirements to be low as they relate to operational risk only and not to economic or demographic risks ☐ Consistency with Solvency II? ☐ A market consistent approach for pensions could be a starting point ☐ The aim would be to describe objectively the pension deal and its financing ☐ Further we would work from the principle of same risks <-> same capital ☐ The risks for IORPs are in many situations significantly different from and less than those for insurers ☐ SII focuses on a one year horizon for risk management and capital requirements. Given the long-term nature of pensions we would advise to take a long-term approach in the risk evaluation. A long term asset liability modelling (ALM) test could prove to be of great value (we do expect though that the use of stochastic ALM will be limited to sizeable IORPs). This would additionally provide	

			information as to whether the financing system that is in place is robust enough in relation to the pension deal. ☐ A short-term financial picture based on market consistent valuation also has relevance as the results of regular valuations inform the stakeholders on whether or not they are on track given the long-term horizon ☐ On the discount rate: ☐ If all conditionalities/risks are included in the cash flow a risk-free rate seems appropriate to value the cash flow (level A) ☐ This would typically require a stochastic approach to model the cash flow ☐ Most IORPs do not yet use stochastic models for various reasons, one being proportionality. In those situations the value of the cash flow can be estimated using a deterministic cash flow discounted using a risk free rate plus a risk premium that appropriately reflects the risks/conditionalities that are not modelled in the cash flow. This should be performed in such a way that if a stochastic model would have been used the outcome would be very similar. ☐ Supervisory Framework o The supervisory framework should reflect and respect the pension deal – and should be determined as appropriate for each Member State and its NCA o The supervisory framework should not require guarantees where they are not part of the pension deal nor require a too low discount rate where it would increase the value of the pension deal beyond that agreed between employers/employees. Neither should the supervisory framework accept higher discount rates than what would	

			reflect the nature of the pension deal – as governed by social and labour law of each member state. o The supervisory framework should be aimed at understanding all elements of the pension deal and its financing, monitor how the plan is doing versus its objectives, require management actions if there is a (significant) deviation from the path to fulfilment of the pension deal and so ensuring that employers/employees live up to what they have agreed and that any communication is in line with the pension deal, the actual financial position and the expected future financial development ☐ Impact and transitional arrangements o Any approach adopted should aim not to alter to a material extent the strength of any 'pension promise' that has already been agreed between employer and employee. o existing member-state specific valuation standards, minimum funding requirements and accompanying recovery periods etc. for benefits already accrued to date or to be accrued in future under existing promises (i.e. for current employees) should be retained (either indefinitely or if this was not workable for effectively a very extended period) o any reasonable approach could potentially be adopted for benefits under new promises, depending on how politicians decide to balance the conflicting demands of continuity, proportionality, market impact, transparency, member protection, consistency with insurance framework, harmonisation and respect for diversity between member states.	
6.	AEIP	General	Preliminary remarks	Noted.

		Comment	AEIP would like to underline that Pension Security needs to take into account the overall pension system of a country, including the balance between security, sustainability and adequacy. We reiterate in this respect, that pensions fall under the subsidiarity principle. Therefore, we would like to express our doubts whether the HBS approach can be consistent with the principles of subsidiarity and whether further harmonization of quantitative requirements is warranted. AEIP welcomes the mapping exercise which shows the major existing differences between and in the Member States with regard to occupational pension provision. These differences, in combination with the afore-mentioned subsidiarity principle, are an additional reason for us to be against harmonizing prudential rules for occupational pensions in Europe. We fear adverse macro-economic effects of capital requirements (due to the proposed Solvency Capital Requirement ("SCR") and a lower incentive for employers to offer occupational pensions. We consider the Holistic Balance Sheet ('HBS") implementation to be costly and thus having a negative impact on the benefits for the IORP members. In addition, we think that the HBS is way too complex and costly for especially small and medium sized IORPs. According to us first and foremost, the fundamental conceptual shortcomings of the HBS should be addressed and discussed. Afterwards, it should be decided for what purpose the HBS could be used, if at all. This should be analysed during a sufficiently long consultation period with sufficient time for EIOPA to draw conclusions from the answers of stakeholders. These conclusions may provide a better and more fruitful lead for a more focused and informative Quantitative Impact Study (QIS), if deemed appropriate.	

			We therefore invite EIOPA to start thinking about alternatives to the HBS, such as ALM studies and continuity analyses. These might serve the same goals as the HBS, with the advantage of lower complexity and costs and less model uncertainty. In general, we deliberate on a possible use of the HBS in the different parts of the IORP Directive: 1 Use for capital requirements (in pillar 1) The HBS is conceptually wrong as an instrument for capital requirements. It is undesirable to set up capital requirements for conditional benefits (let alone discretionary benefits), as this would make them unconditional in practice: once the initially calculated capital charge is met by means of a higher funding ratio, the capital charge will have grown as the value of the "conditional" benefit will be higher at a higher funding ratio. This leads to a spiral that will only stop once the maximum of the originally conditional benefit will be granted, making it implicitly unconditional. The capital requirement for conditional benefits would moreover imply a double charge for risk taking as both the resulting upward potential (higher option value, i.e. an higher market consistent value) and the downward risk (higher SCR) result in higher capital requirements. This is a clear disincentive to take risk, which is likely to be harmful for participants (lower returns leading to lower pensions and higher contributions) and runs counter to the objective of the European Commission to stimulate pension funds to finance long-term investments. Finally, as options (like conditional benefits, extra (conditional) sponsor support and benefit cuts) are less sensitive to volatility if they are far out of the	

			money, risk taking is more opposed for rich funds than for poor ones. Also, the combination of the HBS and an SCR is conceptually wrong. The HBS shows the current market value of all conditional and unconditional pension promises (assuming there is a complete market, which is not the case), and the way in which these promises are backed by current assets and conditional future payments (or benefit reductions). As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for an SCR on the HBS. This can be illustrated for a simple (complete) contract with a finite horizon where the participants will receive all revenues of the fund when it will close. If the stochastic simulations for the HBS are conducted over the full (finite) lifetime of the pension contract, the HBS will exactly balance. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option (indexation option) minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the contract, the conditional pension rights after the simulation horizon will not be valued, and consequently there will generally be a residual (positive or negative). This residual represents transfers to or from the generations that will still be in the fund after the simulation horizon. In the view of EIOPA, the pension fund only disposes of sufficient capital when this residual will exceed the SCR. This would then in practice mean that, irrespective of the starting financial situation of the fund, current members should always have to make transfers to future generations. This cannot be regarded as beneficial for the current participants. In addition the longer the simulation horizon, the smaller the value of the residual will be (as the transfers are discounted), and therefore the less likely that the HBS (including the SCR) will balance. Next to the fact that the HBS concept is inconsistent with the SCR, it is	

			also inconsistent with a recovery plan. To calculate the HBS including all conditional and mixed benefits and all steering instruments requires to include all extra possible future funding like extra sponsor support and instruments like benefits cuts. If the HBS will not balance, there is no further recovery plan possible, since all steering instruments are already included in the HBS. The only conclusion one can draw is that the funding policy is insufficient to pay out the benefits as promised, thus that the pension deal seems to be unsustainable (at current market prices). A third fundamental problem with the use of the HBS for capital requirements concerns the supervisory response. Given that the HBS can only be calculated assuming a complete contract (including an agreement beforehand on the sharing of surpluses and deficits between the different stakeholders and all recovery mechanisms), the outcome of the HBS is a take it or leave it deal. If the supervisor would not like the outcome, he might only suggest adjustments in the contract or the recovery mechanisms, – but it is up to the employer(s) and employee(s) to decide on the pension deal, not to the supervisor – but the resulting HBS-outcome will be highly unpredictable as all HBS-items are interrelated. Consequently, this approach is not suitable for prudential supervision. In addition to these fundamental problems, the HBS also implies severe practical problems. Although the HBS, in theory, provides for an overview of all risks that have an impact on the 'solvency' of an IORP. However, the QIS1 (2012) has shown that in practice IORPs faced great difficulties in providing accurate numbers,. We doubt whether these difficulties can be overcome at all. This is due to the unavailability of necessary data (market prices for long horizons, standard deviations and correlations and missing markets (like the prices for wage inflation)), and the complexity of the methods to use (i.e. risk neutral valuation in the absence of closed form calculation methods). The complexity of the methods to use, makes the HBS very	

			sensitive, possibly too sensitive for model and parameter assumptions, which can result in the valuation of HBS to change by tens of percentage points depending on the assumptions used. The simplifications that are being investigated may solve the problem of the complexity on the one hand, but will inevitably lead to overall inconsistencies on the other hand: any simplification will inevitably lead to the entire HBS to be no longer market consistent. And if simplification will lead to a different market value of balance sheet item, this different valuation will also impact the valuation of all the other balance sheet items. 2 Use as an instrument for risk management (in pillar 2) The HBS might possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but less complex methods would better achieve this goal. A well drafted HBS can provide insights in the relative risks for different stakeholders. It is important to note however, that this does not provide insights into the main goals of an IORP, which are for example the capacity to pay the current benefits or the capacity to compensate for inflation. It only gives the current valuation of the future cash flows against market prices (assuming there is a market, which is not the case) of conditional and unconditional pension benefits and the way these promises are financed. It will therefore never be possible to use the HBS as the sole instrument for risk management, but other instruments will always be needed. Other instruments can for example consist of some sort of solvency projection (continuity analysis), ALM calculations and stress tests. If such instruments are available, we think that there is little additional added value of also using the HBS, especially given the complexity of the information that the HBS provides. 3 Use as a tool for transparency (in pillar 3)	

			The HBS cannot be used for transparency purposes. The information provided by the HBS is not the information that scheme members need or expect. A participant wants to learn about the risks facing his pension benefits, for example the probability that his benefits will be lowered or not adjusted to inflation, and what the magnitude of these events could be. The option values that are shown on the HBS do not provide this information, as they are not a forward looking, and only a relative ranking of risks. The fact that an indexation option (the market value of conditional indexation) currently has a value of for example 5, does not convey any information about the probability that the pensions will be indexed. It only provides the current market price of the option. As the participant cannot trade this option, this value is hardly informative. Technically, the option values provide information about the value of the optionality in a risk neutral world, but this is not the world in which participants live. Moreover, as market conditions may change quickly, the option value may be very volatile. We therefore conclude that use of the HBS in Pillar 3 is neither desirable nor feasible. If specific elements of the HBS will be implemented as balancing items, we want to stress that it is still important to properly convey all the relevant information. As an example, if a specific form of sponsor support would be used as a balancing item but the coverage is not 100%, any remaining risk to the participants or the IORP should still be reflected elsewhere on the HBS. Last but not least, we would like to remind that our answers to the technical questions depend on the implementation of a prudential framework that is not clear as of yet.	
7.	AGV Chemie	General Comment	AGV Chemie Rhineland-Palatinate (Association of Chemical Employers' in Rhineland-Palatinate), is the voice of the chemical employers in	Noted.

			Rhineland-Palatinate. We represent about 130 companies employing roughly 62.700 workers. We call upon the European Commission and EIOPA to refrain from increasing the capital requirements for IORPs and especially from extending the requirements of Solvency II to IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardise not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this in the end to the detriment of beneficiaries. Therefore, the continued technical work by EIOPA on the HBS is not the right approach. In contrast to that, we repeat our suggestion of the last consultation in October 2013, that the European Commission should develop with support of EIOPA and in dialogue with the social partners a tailor-made European supervision regime for IORPs primarily oriented on minimum standards and the principle of subsidiarity. Although EIOPA thinks that the HBS methodology will be required in one or another form, the recent version of the IORP directive proposal actually does not justify any quantitative requirements based on the HBS approach. It must be noted that the HBS approach does not adequately fit to the social character of IORPs and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the	

			protection of labour, social and co-determination law. Every move towards a system that places more burdens on IORPs and their sponsoring undertakings contradicts the fact that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases the employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. European employers cannot afford more costs due to the fact that their secondary wage costs are already at such a high level that any further increase will pose a threat to their international competitiveness. As a result, higher costs are likely to lead to a decrease in benefit level and coverage of occupational pension plans. We generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, but for occupational pensions labour law does not allow early cancellations. Instead of that we would prefer to see a strengthening of the subsidiarity principle by allowing options which give the Member States the responsibility for defining regulatory details in line with national labour, co-determination and social law. Accordingly, we	

			refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In Germany pensions are safeguarded already by labour, co-determination and social law. Additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if a sponsor invests in his own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP. Last but not least, the prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads them to revisit their commitment to continuing to offer workplace pensions of the kind which would be affected. These employers are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses for increasing their level of investment. Furthermore, this continuing uncertainty about the scale of revisions to the supervisory regime may have a significant detrimental impact upon wider economic activity in our sector and trigger changes in employers' behaviour as they could anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions.	

			In summary, the HBS approach is unsuitable for company pensions and should therefore be omitted. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise.	
9.	ALSTOM	General Comment	Alstom is a manufacturer of transport and power equipment, with activities in more than 70 countries and 90000 employees worldwide. The group sponsors many pension schemes within and outside the European Union and has acquired a thorough knowledge in this area. We welcome this opportunity to express our concerns about the future of occupational pensions in Europe. Our answer below follows discussions held with many other international companies that sponsor major IORPs in the European Union. Sponsoring companies are key stakeholders in this debate, and we need to stress that their representation is in our view not properly ensured in the OPSG of EIOPA. We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. More generally, we do not agree that the prudential framework for occupational pensions is derived from Solvency II. Like many other stakeholders (pension funds, employers, trade unions, governments, OECD…), we fear that the proposed quantitative approach might have serious adverse consequences on pension	Noted.

			systems, employment and long term investment in Europe. The European Commission has, to a large extent, acknowledged these concerns and decided not to introduce additional solvency requirements in its future IORP Directive. Therefore, it is not clear why EIOPA continues technical work in this area. Moreover, it makes no sense to discuss prudential rules for IORPs before any political decision is made about their role in the overall pension system and in the economy of the European Union. The starting point of the debate should be the principles stated in the White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" and in the Green Paper on "Long-Term Financing of the European Economy". First pillar pensions will be limited by the scarcity of Member States resources, and occupational pensions must then form a growing part of European pension systems. Today, less than a half of European citizens have access to a workplace pension. Extending the coverage of workplace pensions should be Europe's priority, rather than increasing the regulatory burdens on existing and well-established pension schemes.	
10.	Aon Hewitt	General Comment	Aon Hewitt is a leading pensions and actuarial adviser in all major IORP locations, and provides advice to over 3,000 IORPs and their sponsors across the EIOPA. Aon Hewitt is part of Aon plc, the leading global provider of risk management, insurance and reinsurance brokerage, and human resource solutions and outsourcing services. Within Europe, Aon has around 9,000 employees in over 30 countries. Globally, Aon has 66,000 colleagues in 120 countries. Aon subsidiaries	Noted.

			also sponsor a number of EEA IORPs with total assets of around €5bn at the end of 2013 (of which the most material are in the UK and Netherlands). From our understanding of the various papers and discussion documents published, Aon Hewitt, as an organisation, has formed the following overall position, which we summarise in the following statements. More detailed reasoning is given in our responses below and reflects our current position; this position may be subject to change as there are further developments in this area. A number of senior leaders from Aon Hewitt's European retirement practice have been involved in preparing this response, including leaders from Aon Hewitt in the UK, Ireland, Netherlands, Germany, Belgium, Nordics and Aon's cross-border team. Our responses are provided from a general European perspective (rather than, for example, a pure UK or pure German perspective or pure Belgian perspective). Needless to say, differences of opinion have emerged depending on where individuals are based and current approaches to retirement provision in each country. In the limited time available to respond to this consultation, we have not been able to resolve all differences in order to come up with answers which every country agrees with. This demonstrates that trying to adopt a common framework under a 'one-size-fits all' approach could be very difficult. Aon Hewitt leaders have also been involved in the drafting of responses from national organisations. To the extent there are differences of opinion, these are largely picked up in the national responses we have been involved with. Given QIS1 showed that there was a total shortfall of €450bn (under	

			Benchmark Set 3A) for IORPS in the EEA, we do not think EIOPA should carry out further QIS work until the issue of how to deal with current deficits has been resolved. In its consultation, EIOPA has raised the possibility of an exemption, or long transition, for existing arrangements. We think that most of our clients would be unwilling to invest significant time, cost and resources in further QIS work if there is a realistic expectation that they might be exempted from any potential new rules. We think that, in the short-term, EIOPA should advise the EC on how a long transition or exemption could work in practice. We believe that this would be supported by the EEA pensions industry, and then there is more likely to be greater engagement in any subsequent QIS work. The case for adopting the replacement of existing prudential frameworks with the Holistic Balance Sheet (HBS) has not been strongly articulated, and it will be very difficult to adopt a common approach for all EEA member states. Our clients are telling us that they do not support the concept of the Holistic Balance Sheet , especially for Pillar 1 purposes, and that this is likely to result in reduced allocations to long-term return-seeking assets (eg equities) as well as the closure of even more defined benefit pension schemes. We therefore do not support proposals for the Holistic Balance Sheet to be applied to existing IORPS. However, in order to provide constructive feedback to EIOPA, we provide responses to the consultation. Responses to the questions should not be viewed as an endorsement of any of the options. Our response adopts the following overall principles:	

			☐ We believe that in many countries (especially large mature IORP markets such as UK, Netherlands and Germany) existing methods of regulation work well and, under EU Principles of Subsidiarity, that it should be left to national member states to determine appropriate solvency rules. If there are concerns over the method of regulation in certain countries, we would like EIOPA to make it clear which countries it is concerned about ☐ Given the very large number of small and medium sized IORPs in the EEA, it is essential that a proportionate approach is adopted and which can be readily used and understood by this group. There is a risk that an approach designed for large IORPs could prove unworkable for the large number of smaller IORPs, and discourage sponsors from providing pension benefits. ☐ We support proposals which could give exemptions to existing arrangements and/or very long transition, encourage investment in long-term assets, and allow for an economically efficient approach to funding of long-term liabilities ☐ We support the use of principle-based methods and proportionality particular for IORPs backed by strong sponsors ☐ We do not support proposals resulting in potentially large one-time sponsor payments and/or benefit cuts for members	

			☐ To ensure IORP resources are used carefully, we suggest more work should be done on exemptions/transitional arrangements before requiring IORPs to take part in another QIS ☐ We are still not convinced that the HBS offers a fully transparent view of the extent to which obligations can be supported by assets and other mechanisms. The HBS tries to combine, and mix up, the position upon insolvency as well as on a going concern. At the very least, these ought to be separated. If an insolvency event actually occurs, then the HBS would have potentially given a misleading position. If it does not, then an excessive surplus could arise (leading to inefficient use of company capital).	
11.	Association of Pension Lawyers	General Comment	General introduction 1. This document sets out the comments of the Association of Pension Lawyers of the United Kingdom (the "APL"). The APL represents members of the UK legal profession with a particular interest in pensions. Currently it has approximately 1200 members. Our members include most, if not all, of the leading practitioners in the UK in this field. This response is submitted by the International Sub-Committee of the APL. 2. Unlike Pension Funds established in some countries, Pension Funds established in the UK are not regulatory own funds for the purposes of Article 17 of the IORP Directive (Directive 2003/41/EC). Pension Funds in the UK are normally established under trust. This means that they act through their trustees and the Pension Fund does not have a separate legal personality, in contrast to a foundation or stichting which may be used in Belgium or the Netherlands.	Noted.

			General comments 3. The original purpose of the holistic balance sheet ("HBS") was to consider whether a single prudential regime could be applied to IORPs across Europe. This goal was said to be necessary in order to encourage cross-border activity amongst IORPs by providing regulatory consistency. 4. We note that the Commission has decided not to pursue solvency provisions within the draft IORP II directive and so there is currently no clear purpose for the HBS regime to fulfil. EIOPA states in the consultation paper that it does not intend to pre-empt any decisions on the possible uses of the HBS. So the situation we currently have is one where EIOPA ("on its own initiative") is seeking to develop a complex model with no clear idea of what it is going to be used for or how it is going to be used. For example, in paragraph 4.117 of the consultation, EIOPA states that "it is unclear how such a holistic balance sheet which never balances would be used in practice by IORPs and supervisers". Clearly, in the context of that comment, one can only decide what approach should be taken if one knows the purpose for which it is going to be used. 5. If one imagines for a moment that the Commission decides in the future to resurrect the HBS proposal for the originally stated purpose of a European-wide prudential regime to encourage cross-border activity, then presumably the HBS regime should only apply to IORPs that wish to undertake cross-border activity. The vast majority of UK IORPs which provide defined benefits are highly unlikely to be used for cross-border purposes even if a European-wide prudential regime were to be introduced because such activity simply would not fit with what the IORP is used for. 6. The majority of UK IORPs are not major financial institutions providing benefits for employees across an entire industry; most are	

			established for use by a single employer or a single corporate group. They are simply not of the same genre as, say, many Dutch IORPs which, because they are not "owned" by a single employer/group, have a much greater degree of independence and autonomy from their sponsors than UK IORPs. While UK IORPs do, of course, have independent trustee boards, those boards can rarely act without input from their sponsors on significant financial matters such as funding and investment. The reason for this is because so much of the IORP's future is tied to the sponsor's future. 7. For IORPs where there is no intention for it to be operated on a cross-border basis, one might question why there is a need for a European-wide prudential regime to be applied. Perhaps there is a much stronger argument in favour of national regulators being left to regulate such IORPs as those national regulators see fit.	
12.	Assuralia Belgium	General Comment	As the professional association of Belgian insurers, with members managing around 80% of second-pillar pensions in Belgium, Assuralia wishes to respond to the EIOPA Consultation Paper on Further Work on Solvency of IORPs. Below it outlines its views on the main aspects of this consultation paper, without going into detail about every single issue raised in the document. Its main focus here is on the supplementary pensions for wage-earners. The importance of safe and secure pensions With the ageing of the European Union's population, supplementary pensions are set to play an ever more important role in the pension policy of EU Member States. Therefore it is important that in developing a policy on pensions, in particular supplementary pensions, the following basic principles are applied:	Noted.

			1) With state pensions under pressure it is necessary to ensure that occupational pensions are safe and affordable. 2) The objective of European prudential requirements is to ensure that beneficiaries all over the EU can reasonably trust that they will effectively receive the occupational pension benefits that have been promised to them (harmonized security level). These requirements set the practical and financial boundaries of what can realistically be promised and therefore need to be respected by national rules and agreements in the social field. 3) Prudential rules and capital requirements must respect the long-term perspective of occupational pension provision without resulting in excessive volatility of own funds and solvency ratios. 4) Prudential rules and capital requirements for long-term pension business must consistently protect all pension beneficiaries, regardless of whether they are affiliated with an insurance company or an IORP. Since insurers and pension funds offer similar pension products (namely supplementary pensions with or without a guaranteed return), these two types of pension providers must be subject to equivalent solvency rules. If it were concluded that some principles could not be made applicable because it would be inappropriate based on a long-term view of supplementary pensions, the same approach would need to be applied to all pension providers. Second-pillar pensions for employees in Belgium in a nutshell ☐ Supplementary pension commitments can be provided on a discretionary basis by the employer or the sector of employment. Responsibility for actually fulfilling these commitments lies solely with the employer/sector. This party is however required to externalise	

			their commitments to either an IORP or to an insurer. ☐ Some 80% of supplementary pension reserves for second-pillar pensions are managed by insurers, with more than 95% of them guaranteeing protection of the investment and a fixed return, showing that the demand for certainty is a very important factor for both employers (cost control) and employees (maintaining their standard of living after retirement) when joining supplementary pension schemes. ☐ Belgium's second-pillar pensions are subject to extensive social regulations protecting the rights of affiliates. The employer is, for example, legally bound to: ☐ honour certain minimum entitlements in the case of defined benefit (DB) schemes (which must be financed at all times); ☐ ensure that affiliates of a defined contribution scheme receive a minimum return on the pension payments made (3.25% or 3.75%), to be financed by the employer. If the pension institution does not offer this return, the employer must make up the shortfall. Notion and use of the holistic balance sheet (HBS) The EIOPA consultation paper takes a closer look at the notion of the holistic balance sheet (HBS), a framework that aims to chart the various risks relating to the fulfilment of pension obligations and how and by whom these risks are borne. Assuralia notes that second-pillar pension commitments often involve a kind of triangular relationship:	

			☐ the employer makes a pension promise to (a part of) its employees and is responsible for actually fulfilling this commitment; ☐ with a view to fulfilling this commitment, the employer will sign a contract with a pension institution (which may offer certain guarantees on the payments made under the contract); ☐ the pension institution pays out the reserves accumulated in this way to the affiliate. As proper information about pensions (whether supplementary or not) is crucial to ensuring EU citizens' faith in them, it is essential that they are duly and clearly informed about their supplementary pension. Attention needs to be paid in this regard also to the level of certainty that this pension commitment will be honoured. Assuralia believes that the HBS should only be used to give the beneficiary/affiliate a clear idea of the level of certainty/security associated with the fulfilment of the pension commitment made by an employer and of the various risks bound up with it. As indicated in the diagram below, the HBS approach must only relate to the pension commitment an employer/sector makes to employees and not to the underlying execution agreement with the pension institution. Furthermore, the HBS must reflect the financial risks linked to the actual commitment.	

			Assuralia would like to make the following remarks about a few of the potential components of the HBS that are referred to in section 4 of the consultation paper. ☐ Sponsor support Sponsor support should be seen as a potential claim against a sponsor to make up any shortfalls relating to pension obligations. Assuralia believes that the following criteria must be met before such sponsor support can be considered: ☐ Sponsor support has to be solid and situated within the time horizon used to determine the security level of the pension plan. ☐ The sponsor support must be legally or contractually enforceable. Sponsor support which is neither legally nor contractually enforceable can never be considered. ☐ The value of this sponsor support and its consideration (or not as the case may be) in the HBS must be determined based on the financial strength of the employer/sponsor. In this context, it should not be forgotten that certain developments that may have a negative impact on the pension institution's obligations may at the same time also have an adverse impact on this sponsor's financial strength. In this respect the current financial strength of the sponsor does not always give a clear image of this sponsor's ability to make the required payments. As a result, it is important to make as realistic an assessment as possible of the sponsor's ability to make necessary payments. ☐ The employer's obligations associated with this sponsor support must be included in this employer's accounts (e.g. IAS19). With a view to protecting the scheme members, the employer must ensure that the security needed for this purpose is established.	

			☐ Treating sponsor support as a balancing item (see question 39 in the consultation paper), based on the assumption that the difference between assets and liabilities will be automatically covered by sponsor support, does not fit into the approach outlined above. ☐ Pension Protection Scheme Pension protection schemes (PPS) are last resort protection mechanisms that intervene in case of bankruptcy of the pension vehicle. So as to protect the affiliate, it is only natural that these protection mechanisms should be kept completely separate from the fulfilment of the pension commitment itself. The following key points back up this approach: ☐ PPS are last resort protection mechanisms that redistribute the consequences of bankruptcy of the pension vehicle over the market or over the tax-payers. Allowing PPS to cover technical provisions and risk buffers will provide an incentive for pension vehicles and plan sponsors to take undesirable levels of risk ('moral hazard'). ☐ A call on the full capacity of PPS would entail considerable risks for society. By introducing a PPS public authorities assume the final responsibility for the occupational pensions that have been promised by employers. Although PPS are important to restore and maintain confidence, it is fair to say that the more technical provisions and solvency buffers are being covered by a pension protection plan in the HBS, the more the liability of the state grows. Counting on such large state interventions economically comes down to transferring (part of) the cost of occupational pensions to future generations of tax-payers. It does not help to achieve the European Commission's objective of	

			creating adequate, safe and sustainable pensions. Note that the proportionality principle should be used for the application of the HBS. Small companies (with few employees) should be exempted (or a simplified approach should be allowed and applied by the IORPs or insurers). The pension commitment (which would be overruled for small companies) should not be restricted to big companies. A prudential framework for IORPs As mentioned above, Assuralia believes that the HBS should not be used for the commitments a pension institution is required to fulfil in relation to its execution agreement. A special prudential framework (including solvency requirements), tailored to the pension institutions specific obligations (between the employers and the affiliates), should be established for this purpose. Assuralia upholds the following principles in this context: ☐ Certainty regarding the fulfilment of the pension obligation is a necessary condition for creating confidence in supplementary pensions among the public and employers. In this regard, it is necessary for all occupational pension schemes to be managed by a pension institution external to the employer. This prevents eventual employer's financial and economic problems impacting accrued pension rights. ☐ A pension institution can manage the pension promises of the	

			employer in the form of a resource guarantee (best efforts obligation - no guarantees) or a performance guarantee (a guaranteed investment return or capital). To ensure appropriate certainty in terms of meeting pension obligations, it is important to build up sufficient solvency capital. Here, the general principle should be: "the greater the risk regarding the commitments, the greater the required solvency margin". If an employer has fully covered the pension entitlements with a pension institution, the pension institution's solvency must be ensured (and it makes sense for lower solvency requirements to be imposed on the employer/organizer). However, if the pension institution manages the pension reserves in the form of a resource guarantee (best efforts obligation), then the risk for compliance with pension obligations in the first place lies with the employer/organizer. In this last case, the solvency requirements for IORPs remain limited to the relevant IORP's residual risks (e.g. operational risks) but care needs to be taken to ensure that the employer is sufficiently solvent to be able to meet its obligations. The level of security of the acquired pension rights of the employees should however be clearly communicated in this context. ☐ Life insurance companies and pension funds offer a similar range of benefits, namely long term pension benefits which can be either guaranteed or not. Therefore, the same solvency obligations need to be established for both pension funds and insurers (under the 'same risks, same rules' principle) so that all the beneficiaries enjoy the same level of protection when it comes to the fulfilment of their pension rights regardless of the pension provider in charge. Hence, the solvency that must be built up in the IORP needs to be based on the similar solvency obligations applying to insurers in this area (Solvency II).	

			In cases where the new solvency requirements appear to require such a major financial effort on the part of the organiser that this would put this party in a dangerous financial situation, consideration could be given to putting in place transitional provisions and/or recovery periods within which the new solvency requirements should be met.	
13.	BAPI	General Comment	BAPI The Belgian Association of Pension Institutions (BAPI) is a non-profit association that brings together the IORPs or institutions for occupational retirement provision as well as the organizers of industry wide pension plans. BAPI's objective is to cooperate in developing a legal and regulatory framework aimed at sustainability expanding the supplementary pension provisions that its members organize or manage on behalf of employees, self-employed persons and civil servants in an occupational context on a collective basis, and by so doing to address the challenges of the ageing population with a view to an essential addition to the statutory pension. In terms of assets under management BAPI represents 80% of the Belgian IORPs. With a total of 18.5 billion € assets under management (figures end 2013) and 1.5 million affiliated members, from an EU perspective, the 208 Belgian IORPs belong all to the small and medium sized IORPs in Europe. BAPI read with great interest the mapping exercise as documented by EIOPA. This document illustrates the patchwork of different regulations for prudential supervision of IORPs as practiced across EU. This patchwork is an illustration of the many different ways of organizing occupational pensions given the underlying broader context	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			which differs in each of the Member states. BAPI welcomes EIOPA made an effort to address several concerns which were raised during previous consultation exercises (sponsor support, proportionality, use of HBS, trigger points, supervisory framework, etc…). So far, we noticed EIOPA has never questioned the starting points, being a) is Solvency II a correct reference for IORPS, and b) is the HBS appropriate as prudential supervisory tool for IORPs. Based on EIOPA's criteria to evaluate the examples of the use of HBS as supervisory framework, we herewith give an overview of BAPI's main comments on the Solvency II approach and the HBS. BAPI uses these criteria to explain why BAPI believes the HBS is not the appropriate tool for a new supervisory framework for IORPs. Market consistency will lead to artificial results and will introduce short-term volatility. BAPI notices the market consistent approach introduces short term volatility which is in contradiction with the long term nature of the pension liabilities of the IORP and which will have an impact on the investment behaviour of the IORPs in EU. BAPI believes the market consistent HBS is not matching the IORP activities and as such it is not the appropriate approach. BAPI believes market consistency only works when prices or values are finally consistent with deep, liquid and transparent financial markets on which no arbitrage opportunities exist. We notice such a market does exist for every item on the holistic balance sheet	

			(HBS)(e.g. sponsor support, risk margin, etc…). For a lot of situations EIOPA still struggles in determining the probability of defaults to value sponsor support. Often the input data is based on best estimates and/or incomplete market data. As such the values for sponsor support are artificial or even arbitrary. Other elements of the HBS are only useful if obtained with very complex stochastic models. This is not realistic as such different simplifications are introduced, but what is the outcome worth? It is too complex to do it right, but by simplifying the results are questionable. As such the HBS is inadequate as regulatory instrument for supervising the IORPs. National IORP systems are very different and according to the subsidiarity principle need specific rules in each Member State EU Member States all have different approaches of organizing their social security system, labour market, social protection mechanisms. This is highly reflected in the many different ways of setting up occupational pension schemes and the way these schemes are organized on the market. Member States with mainly pure DC schemes organized by IORPs with a commercial organizational structure should be able to address prudential regulation differently from Member States with mainly DB pension schemes organized by IORPs with a not for profit organizational structure and where social partners are deeply involved in the management of the IORP and/or the scheme. As all risk protection comes with a cost label which is highly impacting the level of the retirement benefit, therefore Member states with a high level of statutory pensions should be able to give	

			more leeway than member states where occupational pensions are the main part of the retirement income. BAPI believes it is not appropriate to aim for a one fits all approach for regulation. We understand EU would like to harmonies the security level for retirement benefits but BAPI believes that this cannot result in a single similar rule for each Member State. Based on the subsidiarity principle, BAPI advocates for an approach based on broad and general EU principles, like in the current IORP Directive, where Member States have the flexibility to adapt the general approach to a broader national context. BAPI would like to emphasize that a possible introduction of the HBS for Belgian IORPs will disturb the Belgian pension market. The HBS will drive sponsors to an insured solution, the so called Branch 23 solution, without any guarantee and without any additional prudential protection for the members and beneficiaries (social- and labour legislation provides only a minimal level of protection). Protection of members and beneficiaries is demolished if in the end retirement plans are terminated or all risk is shifted At the one hand EU's aim is to encourage occupational pension provisioning and to protect members and beneficiaries, but on the other hand a prudential framework is suggested for which stakeholders fear that a) pension provisioning will decrease due to increasing costs for the sponsoring undertaking b) risks for members and beneficiaries will increase due to a further shift from DB to DC c) a change in investment strategy might impact economic development and growth and will reduce the room for occupational retirement provisioning in EU.	

			BAPI stresses that further research on the possible micro- and macro-economic impact needs to be done before a HBS is introduced. We fear in the end the HBS will not at all protect members and beneficiaries but will leave them with poor benefits or even without any retirement benefit plan. Similar level of protection should be seen in a broader context As protection costs money and impacts the benefit, BAPI truly believes that the level of protection of the occupational retirement benefit should be aligned with the broader context. The level of protection should be dependent on the part this pension takes in the total retirement income. In setting the level of protection, Member States should take into account elements like the level of statutory retirement benefits, percentage of house ownership, costs for health care, access to care facilities for elderly etc… Based on the subsidiarity principle, BAPI advocates for a framework based on broad and general EU principles but where Member States have the flexibility to adapt the general approach at a broader national context and where the level of protection can be adapted to the broader context. Sponsors should be encouraged to organize pension plans by focusing on innovation, development and growth. Pension protection schemes may help to protect against the sponsor default risk. Providing capital/sponsor support to protect the long term retirement benefits of members and beneficiaries against a short term risk (one year) that might pop up with a probability of 0.5% (once in 200 years) risks to create a lot of "death capital" and might have a substantial negative impact on the sponsor, the capital markets, the development	

			and growth and not a least on the long term retirement benefits of EU citizens (which we wanted to protect). Sponsors should focus on creating value to develop economic growth. This is essential to create jobs and to create the opportunity for EU citizens to generate occupational pensions. If EU wants to guarantee a decent income for members and beneficiaries, attention should be given to a proper risk sharing amongst all stakeholders. A further shift from DB to DC plans should be avoided. A pension protection scheme can be part of this picture. Long term investments should be encouraged EU focusses on long term investments and takes many initiatives in this respect. But on the other hand EIOPA continues to work on a supervisory framework which discourages IORPs to invest in long term securities. The Solvency II approach contradicts the long term nature of life insurance products as well as those of the IORP's liabilities by imposing elements like the use of a risk free discount rate curve and a "Value At Risk" over 1 year. A research paper recently published by the European Central Bank states that: "The main findings of the study are that the proposed solvency capital requirement framework could lead to IORPs shifting their investment allocations towards a greater proportion of "low-risk" asset classes. However, the impact is likely to vary extensively across EU countries, in line with national pension legislation, demographic profiles, the macro-financial situation and cultural preferences.	

			Nevertheless, the study finds some empirical support to suggest that even the announcement of the proposed revisions, which have in the meantime been deferred, may already have led to some de-risking of some IORPs. Furthermore, some pro-cyclicality of IORPs' investment strategies could be expected should these proposals be adopted, although the exact outcomes will depend on their precise calibration, especially regarding counter-cyclical adjustments." Cross border activity is not the only goal BAPI is of the opinion that cross border activities besides being obstructed by prudential regulations mainly are jeopardized by the differences in fiscal (and para fiscal) regimes and social/labour law regulations. It is particularly this latter matter that tends to cause mistrust on the part of the social partners when it comes to organizing pensions in another member state. Please note EU currently only counts a marginal number of IORPS with cross border activities (less than 100 compared to about 110,000 IORPs). BAPI believes the current principle based minimal harmonization level as defined in IORP I gives already an adequate protection level also in cross border situations. Consistency with insurance framework is a wrong starting point EU introduces regulations to secure the solvency of bank and insurance companies and would like to extend this type of financial regulation for IORPs. The regulations Basel III and Solvency II use a market consistent and risk based approach. Both regulations offer a consistent framework to value risk and market value at a certain moment in time, in order to inform shareholders about the risk they bear, and to post correct values on the capital markets. BAPI notices there are important issues with the implementation of the Solvency II	

			regulation for life insurances products also mainly because of their long term nature. Approaches as used by Basel III and Solvency II are copy/pasted to the IORP environment to reflect if long term expectations from members and beneficiaries will be sustained by the underlying sponsoring undertaking who organizes its pension scheme via an IORP. Between the world of the financial institutions at one hand and the world of the institutions with mainly a social purpose at the other hand many contradictions exist: short term valuation versus long term capacity to honour the benefit commitment, financial approach versus social approach, shareholders versus stakeholders, insurance engagement versus sponsor's commitment combined with IORPs' best effort engagement, need for transferability of the engagement or not and many others. The HBS approach extends the prudential framework for IORPS to a social framework which controls the sustainability of a pension promise rather than the solvency of an IORP. BAPI questions if this is still in line with the subsidiarity principle. BAPI realizes IORPs across EU might have different forms, nevertheless BAPI asks for an IORP regulation which takes into account the different characteristics and particularities. As IORPs are different to banks and insurance companies, BAPI is convinced the consistency with the insurance framework might not be a main goal.	

			An alternative for next QIS BAPI believes that EIOPA already has a lot of building block results from the previous QIS exercise to understand most of the impact of each of the examples for the different IORPs in the different Member States. As an additional QIS exercise again requires extensive resources, BAPI advocates for a more efficient and pragmatic approach based on previous QIS results. BAPI's view on the HBS Based on the comments above, BAPI states there is no need for the HBS to set funding and capital requirements for IORPs across EU. In this perspective, BAPI pleads for a continuation of the IORP I Directive, being a minimal harmonization based on general principles focusing on engagements taken and risks borne by the IORP. The HBS might be an adequate tool for risk management. Although due to proportionality reasons we believe for small and medium sized IORPs more appropriate tools such as Asset Liability Modelling, Continuity Tests or Stress Tests exist and have already proven their adequacy during the recent turbulent financial years. Despite this BAPI's view, BAPI answers EIOPA's questions in order to provide constructive input for EIOPA's further work on solvency for IORPs. It must be clear that it is not because BAPI answers the question that BAPI supports the HBS as a supervisory/transparency concept for IORPs because we do not.	
14.	Barnett Waddingham LLP	General Comment	Barnett Waddingham LLP is a UK based firm of actuaries and consultants. In particular, we provide a range of actuarial, administration and consultancy services to trustees and sponsoring employers of pension schemes. The following represents the views of many, but not necessarily all, of	Noted.

			the consultants working at Barnett Waddingham, and the partners of the firm. This consultation ignores the considerable progress that has been made by IORPs in recent years under the current funding regime. We remain fundamentally opposed to the holistic balance sheet approach as envisaged by EIOPA. We are unconvinced of the rationale for setting harmonised solvency requirements at European level while there remain key differences between the level and type of benefits in member states. These differences are driven primarily by social and labour law and so it is more appropriate for solvency requirements to be set by national regulators who understand the background. Furthermore, any proposals to increase funding requirements for IORPs should not be taken lightly given their impact on the companies sponsoring IORPs and, therefore, prospects for economic growth, employment and long-term investment. While we have provided comments on some specific questions asked by EIOPA, this should not be taken as support for EIOPA's general approach.	
15.	BASF SE	General Comment	BASF is the leading chemical company celebrating its 150th anniversary in 2015. BASF has more than 110.000 employees world wide whereof about 70.000 are employed in Europe. It offers occupational pensions to its German employees (about 50.000) via the BASF Pensionskasse which was founded 1888 and to its other European employees via various pension funds. BASF Pensionskasse and the European BASF pension funds are subject to the European IORP regulation and therefore would be affected by the outcome of	Noted.

			this consultation. BASF would like to point out that the response to specific questions does not mean that BASF supports the overall concept, guiding the further work on solvency of IORPs in general and EIOPA's questions below in particular General remarks It must be noted first and foremost that EIOPA is not presenting any alternatives to the general HBS approach. This implies that EIOPA thinks that this methodology will be required in one or another form. This contradicts the recent version of the IORP directive proposal which does not justify any quantitative requirements based on the HBS approach. It also appears to run counter to how EIOPA allegedly is presenting itself as being open to various alternatives and as not prejudging which options should be applied and whether a very harmonized regulation shall be implemented across Europe or whether there are member state options to adopt the rules to the national requirements. Secondly, it must be noted that the HBS approach does not adequately account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law.	

			Thirdly, every move towards a system that places more burdens on IORPs and their sponsoring undertakings must take into account that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members, because European employers cannot afford more costs due to the fact that their secondary wage costs are already at such a level that any further increase will pose a threat to their international competitiveness. As a result, higher costs either on the employer's or on the employee's side are likely to lead to a decrease in benefit level and coverage of occupational pension plans. Occupational pensions are voluntary benefits provided by as a form of pay for the employees' work for the employer. Such systems should be not be the most important concern of the employer and its IORPs in Europe to meet the ever changing and more and more complex legal supervisory requirements. Otherwise the employer will turn away from pensions and direct the respective funds into other forms of pay for work. Fourthly, we generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, for occupational pensions labour law does not allow early cancellations	

			but to the contrary either insures vesting of acquired pension rights or transfer to another pension vehicle. Moreover, any valuation and risk management that is based on a market value approach sets the wrong incentives for those running the institution. Rather than considering the very long duration of the pension liabilities and transferring these into adequate asset allocation, market value based approach is likely to lead to pro-cyclical investment behaviour and could harm solid and long-term planning. This could additionaly destabilize capital markets and whole national economies and requires therefore a proper impact assessment. The HBS would show current market prices of options included. As the participants cannot trade these options, these values are hardly informative. Technically, the option values provide information about the value of the optionality in a risk neutral world, but this is not the (real) world in which participants live. Fifthly, pensions are a matter which is subject to member states and therefore need a strengthening of the subsidiarity principle by allowing for options which give the member states the responsibility for defining regulatory details which are in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level as implied by some questions of this consultation. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In the German situation pensions are safeguarded already by labour, co-determination and social law. Sixthly, we see well tested much less costly, much less complex alternatives to market consistent solvency requirements and HBS: these are ALM studies, stress tests etc. …	

			Seventhly, except for the Pensionskassen in Germany, it is a constituting feature of IORPs that they may be underfunded for some time and, in addition, that there may be recovery plans established over time to make up for the underfunding. Eightly, results that give the impression of an underfunding but refer to unrealistic scenarios worry the stakeholders. This could lead to show unrealistic liabilities and risks in the balance sheet of the sponsor and could result in a draw back from occupational pensions to protect its business and its shareholders. Ninethly, we doubt that any approach that assumes that governance bonds are risk free can lead to results that could be interpreted in a reasonable way. Rather such models will provide somehow arbitrary results whith no added value. Last but not least, we are convinced that additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if an employer invests in his own business to ensure the pension promises in the long run by improving its economic strength and therefore its ability to finance the occupational pensions instead of transferring additional funds into its IORP when an (“artificial” short term) underfunding situation occurs.	

			Summarizing our general remarks, we think the HBS approach is unsuitable for company pensions and should therefore not be used. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise. This would contradict the European commission which excluded quantitative rules for funding requirements.	
16.	BAVC	General Comment	The Bundesarbeitgeberverband Chemie e.V. (BAVC) is the federation of Employers Association in the chemical Industries. Employer-financed retirement benefits are an integral part of the modern remuneration systems in our industry. In the German chemical industry this type of supplementary pension system is widely used. The percentage of public employees who have shown a commitment for purely employer-financed retirement benefit schemes has remained stable at around 70 percent for many years. This form of supplementary provision for old age and death has been a long standing tradition in the German chemical industry. The pension funds of many major German chemical companies employing tens of thousands of pensionable employees often date back to the time before 1890 and these pension funds have successfully survived all developments in European history since then. Since 1998, the German chemical industry has also gradually established a collective agreement of social partnership through the creation of an additional, attractive and powerful system of negotiated pension funds. This occurred particularly due to a significant decline witnessed in the mandatory pension schemes in Germany thus necessitating the need for creation of an indispensable component of adequate and sustainable social representation and protection of workers in the future. Approximately 80 percent of salaried employees	Noted.

			in the German chemical industry have now joined this system and convert a part of their remuneration into pension for the purpose of retirement. This is done as a part of the implementation of the occupational pension schemes and collective agreements that guarantee additional financial support by the employers, thus fulfilling their social responsibility in a special manner. In addition to the entitlement from the statutory pension schemes, the vast majority of the workforce in our industry is also entitled to purely employer-financed company pension schemes that provide a well-funded conversion of remuneration into occupational pension systems provided by the employers. Within the collective agreements all companies in the industry are obliged to provide appropriate occupational pensions for their employees for deferred compensation and to promote, organize and finance such pension schemes. In this respect, our industry is affected by changes to the regulatory framework for occupational pension schemes in a particular manner. The proposed review, by the European Commission, of the IORP Directive with the aim of fulfilling the goals of social policy - promotion of occupational pension schemes and creation of adequate, sustainable and safe pension systems – does not do justice to the conviction of the employers in the chemical industry and therefore requires fundamental changes. Although the European Commission’s proposal, which does not currently envisage tightening of capital requirements in line with Solvency II norms, needs to be warmly welcomed; it has received critical and intensive discussion in the recent years with the European Parliament making its position clear on this topic. However, the application of Solvency II regulatory framework through the work of the EIOPA under the guise of the “Holistic Balance Sheets” (HBS) model continues to impact the present proposal. For example, Article 29 of the proposed Directive imposes the obligation of an assessment of pension-related risk assessment in the future which already clearly	

			picks up elements of the HBS and ultimately the Solvency II model. Thus, significant advancements have been made in the introduction of such a framework in the form of future quantitative capital requirements or as part of a quality regulatory model within the overall risk management systems of the IORP. This is, however, not consistent and thus the German occupational pension schemes will continue to be threatened with multi-billion additional expenses. The introduction of the HBS or similar models that build on the model of the European Solvency II regime shall prove to be imprudent and strict. Rather, the Directive should provide clarity regarding the capital requirements in the insurance industry. The local policies regarding the valuation of assets and liabilities may not be an appropriate benchmark for the IORP. Therefore, EIOPA should stop its work on the so-called "Holistic Balance Sheet" for finalization of the IORP. Regulation of the occupational pension schemes is the responsibility of the Member states The European Commission has repeatedly and correctly emphasized that the responsibility for pension schemes and their regulation lies with the Member States. It therefore seems consistent enough to increasingly want to regulate the operating procedures and tariff schemes as they exist in the German chemical and other industries. Expansion of the European regulatory framework – beyond the existing – may not provide any significant value addition to the occupational pension systems in Germany. Moreover, there exists no uniform system within the perspective of all the national level regulations, rules and goals for occupational retirement schemes in all the 28 Member States in addition of being capable to deal with the national tax, labour and social conditions at the same time. A single Europe-wide regulation and supervision system could only be appropriate and in accordance with the principle of subsidiarity when national-level measures are no longer in a	

			position to guarantee the social objectives of pension schemes or when a true internal market for this type of company pension schemes emerges. Both of which are clearly not the case. In particular, the employee is insured through the subsidiary liability of the employer in Section 1, Para. 1, Sentence 3 of the pension provision (BetrAVG) in Germany for the agreements on Company's retirement benefit scheme, through the continuous and comprehensive supervision and control of the German IORP, as well as through the national supervising authority (Federal Financial Supervisory Authority - BaFin) and also the direct /indirect participation of their representatives in IORP regulated bodies, before loss attributable to minority occupational pension benefits. A repeated risk hedging imposed by additional European rules would only lead to a substantial increase in the cost of employee benefits, which would either have a negative impact on the amount of benefits provided to employees, or alternatively, worse, could lead to a withdrawal of employers from the voluntarily offered employer-financed retirement benefits.	
17.	BDA	General Comment	BDA, Confederation of German Employers' Associations, calls upon the European Commission and EIOPA to refrain from increasing the capital requirements for IORPs and especially from extending the requirements of Solvency II to IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardise not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this in the end to the detriment of beneficiaries.	Noted.

			Therefore, the continued technical work by EIOPA on the HBS is not the right approach. In contrast to that, we repeat our suggestion of the last consultation in October 2013, that the European Commission should develop with support of EIOPA and in dialogue with the social partners a tailor-made European supervision regime for IORPs primarily oriented on minimum standards and the principle of subsidiarity. Although EIOPA thinks that the HBS methodology will be required in one or another form, the recent version of the IORP directive proposal actually does not justify any quantitative requirements based on the HBS approach. It must be noted that the HBS approach does not adequately fit to the social character of IORPs and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Every move towards a system that places more burdens on IORPs and their sponsoring undertakings contradicts the fact that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases the employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. European employers cannot afford more costs due to the	

			fact that their secondary wage costs are already at such a high level that any further increase will pose a threat to their international competitiveness. As a result, higher costs are likely to lead to a decrease in benefit level and coverage of occupational pension plans. We generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, but for occupational pensions labour law does not allow early cancellations. Instead of that we would prefer to see a strengthening of the subsidiarity principle by allowing options which give the Member States the responsibility for defining regulatory details in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In Germany pensions are safeguarded already by labour, co-determination and social law. Additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if a sponsor invests in his own business to ensure the pension promises in the long run instead of transferring additional	

			funds into its IORP. Last but not least, the prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads them to revisit their commitment to continuing to offer workplace pensions of the kind which would be affected. These employers are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses for increasing their level of investment. Furthermore, this continuing uncertainty about the scale of revisions to the supervisory regime may have a significant detrimental impact upon wider economic activity in our sector and trigger changes in employers' behaviour as they could anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. In summary, the HBS approach is unsuitable for company pensions and should therefore be omitted. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise.	
18.	Better Finance	General Comment	Better Finance, the European Federation of Financial Services Users, welcomes the initiative of EIOPA on valuation and solvency of IORPs and supports the EIOPA initiative to make IORPs more transparent and stable in favor of members and so-called "beneficiaries". Better Finance is generally in favour of the achievement of a single	Noted.

			market for pension savings in the EU, which we deem in the interest for EU citizens as pension savers; since the persistence of fragmentation, of the lack of comparability and of transparency on funding levels of IORP pension schemes is not in the interest of EU citizens as pension savers. In addition, the design of EU wide solvency rules for pension savings products managed by IORPs would also help ending the lack of consistency and the lack of a level playing field with the other pension saving products, in particular those managed by insurance undertakings. Better Finance experts participated actively in completing the reply to this consultation from the European Commission's FSUG (Financial Services User Group). This is why most of our reply is identical to that of the FSUG. In the context of this work, Better Finance thinks that the issues of IORPs´ solvency should be treated very carefully within the context of IORP Directive review. Not only the "HBS" (holistic balance sheet) should be in the centre of focus and also clearly defined in plain English terms to the members, but also additional aspects related to "PBS" (pension benefit statement) such as the solvency of IORPs should be clearly linked to the promises given to members (and sponsors) on one side and the transparency of expected benefits presented in Pension Benefit Statements. These two sides should be well balanced.	

20.	British Telecommunications plc	General Comment	About BT British Telecommunications plc is the sponsor of the BT Pension Scheme, which is the UK's largest corporate pension scheme. As at 30 June 2014, the Scheme held assets of over £40 billion and was responsible for around 314,000 beneficiaries under a defined benefit structure. This includes around 40,000 employees currently earning defined benefits. This consultation is not the right priority for EIOPA Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, EIOPA should not continue with work on the holistic balance sheet on its 'own initiative' without an explicit mandate from the EC. This is not the right priority for EIOPA to be pursuing. EIOPA's focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states (namely defined benefit IORPs). We therefore believe that EIOPA should drop its work on the holistic balance sheet altogether. Given the increasing trend towards defined contribution pension	Noted.

			provision, a much better focus would be on developing a framework for strong principles-based defined contribution governance standards across the EU. The UK has already been involved in developing its own governance regime, which could contribute to the development of best practice guidance across Europe. First pillar pensions are likely to become increasingly limited by the scarcity of Member States resources, and occupational pensions may be required to form a growing part of overall European pension systems. Today, less than a half of European citizens have access to a workplace pension. Extending the coverage of workplace pensions should be Europe's priority, rather than increasing the regulatory burdens on existing and well-established pension schemes. Occupational pensions are also part of the employment contract and are handled effectively by social partners. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed. Solvency funding would be damaging for pensions, sponsors and the economy BT does not believe that applying a regime based on Solvency II to IORPs (and to the use of the holistic balance sheet as a mechanism for applying such a regime) would be beneficial. This would be damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. It would also discourage the establishment	

			of new defined benefit provision. This cuts directly against the EC's goal of ensuring adequate pension provision across the EU. The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with a reduced ability to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it will lead to reduced competitiveness compared with non-European companies. Such a proposal would also be inconsistent with broader EC policy goals on long term investing and financing, including for EU infrastructure projects, as set out in an EU White Paper and related documentation in 2014. The solvency regime would in our view have the net effect of worsening the investment climate from pension funds in such assets and would have a chilling effect on a macro-economic level on key Northern European economies which are the growth engines of Europe. As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This and could lead to significant market distortions and runs counter to the EU's current focus on encouraging long-term market investment. The impact of implementing a holistic balance sheet approach would go far beyond individual pension schemes. A full impact assessment by the EU, ECB and relevant Member States considering the impacts	

			on the wider economy would be essential before any steps could be taken on any of the options in the consultation paper to identify possible impacts on pension schemes and sponsoring employers, and also on wider long-term investment trends and economic growth. Sponsor support cannot be valued as a single figure One of the aims of the consultation is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We not believe this is feasible. The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer or employers, and on the situation of both the scheme and the employer(s). For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is being run on an ongoing basis with contributions continuing to be made. In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are spurious and misleading. Such a single figure would ignore, for example, additional and valuable	

			protections for pension schemes such as negative pledges and dividend policies, which may well provide significant protection that funding will be available to a pension scheme in the long term without being captured at all by the single figure approach. Covenant assessment requires the exercise of expert judgement in specific circumstances, rather than blind reliance on a model to produce a single number. Further, the existence of a single figure for the commitment of an employer to their pension scheme could feed into the rating agencies' assessments of a company's strength. Whilst we accept that it is right that an employer's commitment to their pension scheme should form part of an assessment of a corporate's financial position, we believe that there is a risk that the number calculated under the holistic balance sheet may be misleading and lead to inappropriate reassessments of a company's financial strength, for example leading to a higher cost of capital. Alternatively, the single figure approach could lead to an undervaluing of the real risk that a pension scheme presents to the continued existence of its sponsoring employer. In our view, an approach under which sponsor support is assessed in qualitative terms is the only practical approach. The consultation contains some less extreme options We believe that the holistic balance sheet would be unnecessary, expensive and potentially damaging both to pension schemes and to the sponsors who provide them. We recognise, however, that EIOPA has gone some way to addressing these serious concerns by	

			considering allowing a principles-based assessment of sponsor support and/or for sponsor support to be included in the holistic balance sheet simply as a balancing item, by proposing an option of allowing the holistic balance sheet to be used purely as a risk management tool, and by introducing the possibility of a transitional regime in the event of a holistic balance sheet being introduced. In the event that EIOPA continues with its plans for a holistic balance sheet, we would urge EIOPA to develop these ideas further to make sure that the holistic balance sheet, if introduced, would not bring in negative consequences for pension schemes and the employers who sponsor them. The case for the holistic balance sheet has not been made However, neither the European Commission nor EIOPA have made a compelling case as to why the holistic balance sheet needs to be introduced. The fundamental concerns that the holistic balance sheet would be addressing need to be clearly spelt out. The consequences of retaining the status quo should be properly examined as part of the agenda for growth and jobs in the EU. It is inappropriate that retaining the status quo is not even considered as one of the examples in the last section of the consultation paper. The UK pensions regime has been resilient during tough economic conditions In the UK, for example, the combination of a strong regulator, a	

			practical funding regime that recognises the need of both pension schemes and their sponsoring employers, good trustee governance and the ultimate protection of the Pension Protection Fund had provided a durable and resilient framework even in the most extreme economic conditions. The holistic balance sheet is likely to undermine and even conflict with strong existing requirements at member state level. EIOPA should therefore consider the benefits of dispensing with the holistic balance sheet altogether. We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. More generally, we do not agree that the prudential framework for occupational pensions is derived from Solvency II. In summary Like many other stakeholders (including pension funds, employers, trade unions, governments), we fear that the proposed quantitative approach might have serious adverse consequences on pension systems, employment and long term investment in Europe. We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. The existing funding and supervisory regimes in individual Member States should already	

			provide sufficient protection for members/participants and the principle of Member State subsidiarity should be observed. Amending these has associated costs (both initial and ongoing) and no demonstrable additional benefit. It is also likely to lead to any existing DB plans being closed and no new DB plans being opened. Any plan to harmonise regimes is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU. The European Commission has, to a large extent, acknowledged these concerns and decided not to introduce additional solvency requirements in the current review of the IORP Directive. It is not clear why EIOPA continues technical work in this area, without explicit direction from the EC. Moreover, it makes no sense to discuss prudential rules for IORPs before any political decision is made about their role in the overall pension system and in the economy of the European Union. The starting point of the debate should be the principles stated in the White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" and in the Green Paper on "Long-Term Financing of the European Economy". Our response We have commented on a few of the specific questions asked by the consultation, but have not focused on the technical detail. Where we have not provided a response to a particular question, this does not mean that we are in agreement with the approach. Our responses below consider the questions raised and overall we do not agree with	

			an approach including the concept of the holistic balance sheet or to the placing of a single value on sponsor support.	
21.	BT Pension Scheme	General Comment	We welcome the opportunity to respond to EIOPAs consultation paper on further work on the solvency of IORPs. We do not intend to respond to the individual questions outlined in the Paper. Rather we prefer to highlight a number of key comments and concerns we have regarding EIOPAs ongoing work on the solvency of IORPs which we will include in the general comments section of the template provided. By way of background, the BT Pension Scheme ("BTPS" or the "Scheme") is the UK's largest corporate defined benefit (DB) pension scheme with assets of over £40 billion (as of 30 June 2014) and over 300,000 scheme members. Members are entitled to a pension as part of their employment contract- they have not been sold a financial product like an insurance policy. BTPS is closed to new members and its objective is therefore to ensure that members receive in full the accrued benefits to which they are entitled. BTPS shares EIOPA's ambitions outlined in its consultation paper – namely to support the financial security of IORPs and encourage strong risk management by IORPs. We welcome EIOPAs change of tone including the consideration of a wider range of options for IORPs and new flexibility for implementation to national regulators who are likely to be best placed to supervise the solvency of IORPs. However we continue to question whether EIOPAs proposed standardised and one-size-fits-all approach is the most appropriate way to realise its stated ambitions, particularly in markets which	Noted.

			already have tried and tested systems in place for protecting scheme members' benefits, like the UK. The combination of sponsor support, back-up from the Pension Protection Fund and oversight (and, when necessary, enforcement) by the Pensions Regulator has proved highly effective in the UK DB environment. Similar to other UK schemes, BTPS has a well developed process for assessing sponsor support and a well-established risk management system which takes full account of the very wide range of factors involved. BTPS has put in place robust risk management practices including understanding the correlation between covenant, funding and investment risks and appropriate scenario and stress testing to analyse and manage such risk. The BTPS approach is in line with that supported and encouraged by the UK Pensions Regulator who provides extensive guidance to Trustees of UK DB schemes in these areas. We therefore believe IORPs, particularly those which are closed to new members, should be able to develop risk-assessment and risk-management tools that are appropriate to the specific circumstances of their unique arrangements under the supervision and guidance of local regulatory bodies. At an EU-level, any requirements under pillar 2 should be principles-based and should not stipulate the Holistic Balance Sheet as the only appropriate risk management tool, as there may be other, more suitable tools available to different IORPs. Developing and complying with a mandatory and prescriptive regime predicated on the use of a Holistic Balance Sheet will inevitably be time consuming and costly for IORPs and we do not see that it will drive better outcomes for IORPs or their members than the processes already deployed locally. We do not support EIOPAs proposal that IORPs should be required to	

			publicly disclose outcomes of a pillar 2 assessment. The Holistic Balance Sheet is complex and it is difficult to see how its disclosure would facilitate members making any informed decisions. Some information provided to trustees to facilitate their evaluation of sponsor support can be commercially and price sensitive. Mandatory disclosure may result in restricted information flows between sponsors and trustees which could be detrimental members' interests. Disclosure also risks the information being misunderstood and mis-used, with potential adverse implications for sponsors and, in turn, long term investments, growth and job prospects in the EU. Aside from the substantial additional initial and ongoing costs to schemes and their employers likely to result from overlaying the well-established UK's funding and supervisory regime with additional complex and prescriptive requirements, we are concerned EIOPAs one-size-fits-all approach to financial and risk management could in fact be detrimental to its stated ambition, perhaps resulting in further herding of pension schemes into the same narrow set of matching assets and potentially leading to increased systemic risk which is exactly what it is trying to avoid. BTPS' Trustees have long recognised that a well-governed scheme with an appropriate funding plan, collaborating with a strong employer, provides the best foundation for long-term protection of member's interests. It is therefore unclear what additional benefit would be derived from valuing IORPs on a Solvency-II basis as proposed to varying degrees in the options outlined in the consultation paper. Once again BTPS is grateful for the opportunity to respond to this consultation. We look forward to engaging with EIOPA colleagues and	

			members of the European Commission in the months ahead. Include contents of letter to ensure comments are included	
22.	Candriam	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. 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. 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	Noted.

			cases. 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. 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.	
23.	CEEMET	General Comment	CEEMET (Council of European Employers of the Metal, Engineering and Technology-Based Industries) is the European employers' organisation representing the interests of the metal, engineering and technology-based industries. Through its national member organisations it represents 200 000 companies across Europe. The vast majority of them are SMEs, providing over 35 million direct and indirect jobs.	Noted.

			CEEMET strongly disputes that there is any need for further EU-level reform of the solvency of IORPs, as contemplated by the consultation. Whilst the transparency and governance of IORPs is capable of further, proportionate, improvement, and such work is well advanced and supported, such institutions are already well structured social schemes overseen by the social partners. Their future development is therefore from a current postion of being well-governed and responsible vehicles for the provision of retirement incomes . We also believe that, given the diversity of pension arrangements across the European Union, it is inappropriate to search for a single approach at EU-level. In line with the subsidiarity principle, a revision of the IORP Directive including solvency requirements or the revision of the supervisory regime in the direction of a Holistic Balance Sheet (HBS), would not be appropriate and would be highly damaging. EIOPA has acknowledged that workplace pension schemes and insurance products are inherently different. The providers of IORPs, who are generally employers, do not operate in the same market as insurers and occupational pensions are accessed by the labour market, not the financial products market. They generally operate on a not for profit basis, represent a considerable investment by employers and are a social partner benefit provided to employees whilst employed by a specific employer only. They also have a very different risk profile	

			and there are mitigating mechanisms for managing that risk overseen by workers themselves, their representatives and employers. The obvious conclusion is therefore that occupational pension schemes require a different supervisory regime and that the type and level of supervision required of insurance providers is inappropriate for occupational schemes. However, the direction of travel set out in the structure of the HBS approach is towards a Solvency II pathway. Whilst we welcome the amendments suggested they do not go far enough and our preference remains for the HBS proposal to be withdrawn entirely. In our view the Consultation Paper proposes a solution to an ill-defined problem with enormous financial implications for the social partners. We note that EIOPA's Quantitative Impact Assessment demonstrated that the original Holistic Balance Sheet proposal would have increased scheme deficits in the UK alone by £150 billion. CEEMET does not support any approach without an overwhelming evidence base which clearly requires IORPs to raise such huge amounts of additional funds. This evidence does not currently exist. CEEMET is also greatly concerned that a revised approach to the regulatory regime suggested by the Consultation Paper would lead to a very significant rise in the technical provisions applying to IORPs and hence the costs of providing them. The prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer workplace pensions of the kind which would be affected by this consultation. For these employers, they are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses to increase their level of investment. The	

			likely future consequences of increasing the cost of providing occupational pensions will be that fewer workers will be offered the opportunity of participating in them. However, with significant pressure on pillar one pensions, which can only increase over time, occupational pensions are likely to only increase in their future importance. EIOPA should therefore actively consider supporting occupational pensions and should be very slow at considering any further measures which reduces the ability of employers to provide them. Unfunded pillar one pensions, which currently exist in a number of member states, simply create an illusion of safe and sustainable retirement incomes for workers. Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity in our sector and risks triggering changes in employer behaviour as they anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions as well as general business confidence. Consequently, and in summary, CEEMET reiterates its long-held view that further reform of the supervisory and funding arrangements runs a real risk of creating an illusory 'pension security' only, as employers will be compelled to reconsider their commitment to workplace pensions affected by this consultation in light of the significant, adverse, fincancial consequences which they may ultimately face. Also, the financial impact on many companies could result in them ceasing to be profitable, risking reduced investment in jobs, skills and Research and Development, and even business closure. The overall	

			impact will be one of reduced overall employer investment in workplace pensions. The HBS initiative is, therefore, highly unlikely to foster more sustainable pension saving and provision. Therefore, we urge EIOPA to defer the work which is the subject of this Consultation Paper, and which is being undertaken without any social partner or other mandate from any representative body. We are also mindful that a robust system of risk management and protection for scheme members' benefits is already in place for the workplace pensions affected by this consultation, robustly overseen by the social partners. It has been stress-tested by valuation rounds carried out by independent professional experts against the backdrop of a deep recession and has withstood that challenge. In conclusion therefore we oppose any fundamental review of a system that has been tried and tested through such difficult times without a clear rationale for doing so.	
24.	CEEP	General Comment	I. We agree with the general aim of the Commission in the Call for Advice of April 2011, according to which a risk-based supervisory system for IORPs should be developed – but for this purpose the IORP Directive should be the starting point. Thus we continue to be of the opinion that the supervision of IORPs requires a sui generis regulatory regime that truly accounts for the differences of IORPs and insurance companies. Due to the differences of pension schemes all over the EU, we suggest respecting these differences among occupational pension	Noted.

			systems in the different member states when amending the regulatory framework. The development of a supervisory regime sui generis, which in particular differs from the Solvency II regime for insurance undertakings, is justified due to the basic differences between IORPs and insurance undertakings, as EIOPA itself has identified several times (in particular in the second consultation document on the review of the IORP Directive, EIOPA-CP-11/006, see 9.3.6 a – h as well as in other EIOPA documents and communications). We have reservations that, in spite of this commitment, the current Consultation Paper on further work on solvency of IORPs as well as EIOPA's discussion paper on sponsor support of 2013, the technical specifications for the IORP QIS of 2012 as well as EIOPA's previous consultations on the IORP review are built on the Solvency II principles and structure. II. The current Consultation Paper (CP) makes an attempt to improve on the shortcomings of the holistic balance sheet (HBS) in particular on the valuation of sponsor support by delivering further valuation approaches (i.e. the balancing item approach) and it tackles the urgent question of how the HBS is going to be used as a regulatory instrument. We want to underline the following points prior to the statements to the concrete questions:: • We welcome that EIOPA for the first time is addressing in detail the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide Solvency Capital Requirement (SCR), tiering of assets, recovery period) although we think that should have been answered at a much earlier stage before the in-depth-analysis of the HBS elements.	

			• We are still of the opinion that the concept of the HBS should not be applied to IORPs. The reason is that the HBS and the calculation of the SCR fully rest on the Solvency II structure regarding the market-consistent valuation of assets and liabilities and the measuring and quantifying of risks which we regard as unsuitable for IORPs (see also part IV of this introduction below). By maintaining this structure, the HBS itself is not an appropriate approach for IORPs. The fact that security mechanisms of IORPs are considered at a later stage may not solve this general problem. • In general we are of the opinion that the qualitative requirements as proposed in the 4th IORP II Compromise Draft of the Italian Presidency (in particular Art. 29 Risk Evaluation for Pensions) sets accurate and sufficient requirements with respect to risk management of IORPs. Further risk management requirements are not necessary. Minimum funding requirements and valuation standards should continue to be determined according to the current IORP directive. Regulatory consequences of the HBS analysis in risk management should only be determined by national supervisors (i.e. recovery plans with long recovery periods). It must be clearly understood that the use of the HBS will not be broadened: in a first step an introduction as risk management tool followed by the second step to use the HBS for strict harmonization of valuation and funding. • The HBS should not be used to lead to EU-wide harmonization of calculation of technical provisions (Level A technical provisions), especially for the reason of putative comparability for an internal market of pensions, if this leads to a higher cost burden for employees and employers and detrimental effects for the entire IORP sector in consequence. As EIOPA clearly analyses the result would be negative	

			effects for occupational pensions, sponsors and economic growth (i.e. 5.86, 5.177, 5.179 and 5.188) – thus the result isn't worthwhile especially as stakeholders do not see any need for an intensification of an internal market for occupational pensions. (see also Q 85 or 97 / 99 for additional cost due to funding requirements and consequences for employers and the (European) economy >> i.e. a relevant study by CBI and Oxford Economics) • Within the hypothetical discussion surrounding the HBS and its introduction we in general welcome the official introduction of the "balancing item approach" (BIA) in combination with the simplified and heuristic check of sponsor strength by using PwC's "M" approach. But we strongly suggest – if the HBS should be introduced at all – that in case of a strong sponsor (or other security mechanism) or multi-employer-scheme (MES) IORPs this should constitute a truly exceptional case that should release from explicitly setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements. The rationale is that in the cases of the application of the BIA the strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation (incl. using risk free interest rates) is not needed anymore because the strength of the sponsor avoids the necessity of a transfer of the IORP's assets and liabilities and further concrete quantifications seem to be superfluous. Especially in the case of MES the BIA captures the notion that a large number of sponsors in the end is in charge of the settlement of pension claims (= HBS) and also serves as cushion for adverse developments (=SCR). This illustrates the flexibility of the sponsor support of MES IORPs and delivers a flexible protection of pension claims with solidarity.	

			III. We welcome that EIOPA still explicitly recognizes that the non-standard case of non-corporate sponsors, especially public sector entities and charities which are in addition mostly multi-employer-schemes (MES), deserves specific considerations. However the range of suggested valuation approaches (except for the balancing item approach) are still not suitable / workable for not-for-profit and public sector sponsors, as EIOPA has not yet further developed solutions for quantifying the sponsor support in a reasonable and feasible way related to these kinds of sponsors compared to EIOPA's Sponsor Support Consultation and the following Sponsor Support Conference in 2013 - these problems are still unresolved. (see Q67) With respect to the use of the balancing item approach for valuing sponsor support, we suggest that multi-employer schemes with large number of employers, legally enforceable sponsor support and joint financing should automatically qualify for applying the balancing item approach without reference to the strength of the individual sponsor (in addition to the listing in no. 4.4 of the consultation document). The rationale for this is that MES with a sufficient number of employers and joint financing could be seen as a means of collective pooling of default risk of individual sponsors – in analogy to the suggestions of EIOPA regarding pension protection schemes (PPS) in 4.248 of the consultation paper. IV. We want to expresses our general concern with the HBS as presented in the IORP QIS of 2012. As the present consultation paper (as well as earlier consultations) does not offer the possibility to address this general issue, we are taking this opportunity to present our general reservations about applying the Solvency II principles, the SCR structure and the HBS concept to IORPs. It is not possible to answer EIOPA's question in the discussion paper on the details of the sponsor support without being able to refer to this argumentation.	

			☐ The Solvency II regime is not necessary for IORPs. The already existing security mechanisms have proven to be safe during the past crisis. ☐ IORPs have specific inbuilt security mechanisms that ensure the solvency position of pension schemes. In some pension schemes, contributions and the main benefit parameters can be modified by employers and employees' representatives. ☐ Many pension schemes, especially of the public sector in the Netherlands, Scandinavian countries or in Germany, foresee paritarian management. Paritarian management involves social partners on the Board of Directors of the IORP or in similar internal supervisory bodies. Due to paritarian representation, the interests both of the employers and of the employees and beneficiaries are well-balanced and the benefit security can therefore be ensured. ☐ Due to the fact that IORPs in the public sector are social institutions and therefore not chiefly for profit organizations, the possibility of a potential conflict of interests between member protection and profit maximizing behaviour and dividend payments is minimised. ☐ For DB- and hybrid DB-/DC-schemes, in at least some Member States, employers have the ultimate responsibility to fulfil the respective pension commitment • The structure of Solvency II is not appropriate for the regulation of IORPs due to the differences between IORPs and insurance undertakings. We consider the market value based approach inadequate for liabilities with such long durations as well as for valuing assets: No transfer of liabilities and assets must be permanently	

			possible due to the tri-party-relationship (employee, employer and IORP). Because of the long-term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. As it is not necessary that liabilities and assets of IORPs may permanently be sold at market prices (because of the relation to sponsors) the way risk is financially measured under Solvency II (i.e. the SCR standard formula or the way the risk margin is derived) are not appropriate. Because of the long term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. Indeed the stable and long-term character of IORPs' liabilities has various risk mitigating effects. The methods of measuring and quantifying financially the risks of IORPs as laid out in Solvency II do not fit the nature of IORPs. These aspects should be taken into consideration when redesigning the regulatory framework for IORPs. • Additionally we are of the opinion that the HBS is not able to reach the intended goal of the European Commission namely to precisely assess and quantify the "true risk position" of IORPs (CfA 4.1 from March 2011), because of the design and the valuation of the HBS. The valuation methods specified for the QIS still involves a high degree of arbitrariness and leads to pseudo-certainty which contradicts the notion of a neutral, objective and informative balance sheet. This problem arises in case of the various suggested ways of quantification: Stochastic modelling strongly depends on the (often arbitrary) choice of parameters and models which make results hard to compare. With respect to the (simplified) deterministic valuation approaches it is not clear if the suggested simplifications are appropriate or even correct. Therefore, the results of stochastic modelling and the simplified deterministic approaches are not comparable. This task becomes even more complex when it comes to evaluating the financial soundness of a public sector institution as employer and sponsor.	

			• In those cases where the HBS includes existing security mechanisms such as sponsor support, pension protection schemes, benefit reductions and where the HBS is used to trigger regulatory actions (recovery plans) the question remains: which regulatory options are available within a recovery plan at all in case of a shortfall within the HBS since all security mechanisms are already included? Which option other than determination remains?	
25.	CIPD	General Comment	Whilst the CIPD recognises that the proposals for a new financial reporting system for pensions would allow for comparisons of the state of pension funds in different EU member states, we are not sure what benefit this would bring to the sponsors of defined benefit plans. We are not convinced that these proposals have any meaningful benefits for UK employers sponsoring such arrangements. Most of our members report that there is now no business rationale for them to sponsor a defined benefit pension scheme for their employees. In fact, these proposals for new financial reporting standards for pension schemes could further accelerate the decline in the proportion of employees in the private sector that are covered by such plans, if they encourage those firms with defined benefit arrangements to close them to accrual. Instead, we believe that the EU would find it more profitable if it focused on ways of looking at how to: extend pension saving to those European workers not already covered by a pension plan; improve outcomes for members of defined contribution pension arrangements, which are replacing workplace defined benefit pension schemes; and help workers extend their working lives to match the increase in their life expectancy. Our interpretation of the proposals indicate that at one extreme (using the balance sheet to apply insurance style solvency to defined benefit	Noted.

			pension plans, example number 1), the new supervisory reporting framework would result in defined benefit plan sponsors having to reduce the gap between their assets and liabilities within a one-year time horizon. If UK defined benefit plan sponsors have to: value their fund liabilities at a near risk-free basis; hold a minimum level of financial assets to cover their liabilities; and have one year to bring the IORP up to the required level, then a number of sponsors could face significant challenges which may result in a number of negative consequences. These might include: lower productivity, higher unemployment, lower real wages, a fall in the levels of innovation, creativity and entrepreneurship, reduced employment opportunities for young workers, as well as lower social cohesion. Even the least extreme of the proposals, namely the use of the holistic balance sheet (example number 6), whereby plan sponsors would only use it as a risk management tool, raises a number of concerns. Those defined benefit plans that are unable to create the new kind of balance sheet would, under these proposals, be required by the pension authority to change their arrangements so that member commitments could be fulfilled. This could result in some pension schemes asking for additional funding from their sponsor, or ceasing accrual.	
26.	Compass Group PLC	General Comment	About Compass Group PLC Compass Group is one of the world's leading foodservice and support services companies with annual revenue of £17 billion operating in over 50 countries. It sponsors defined benefit pension plans for the benefit of certain current and past employees which collectively have future obligations in excess of £2 billion. This consultation is not the right priority for EIOPA	Noted.

			Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, we are very disappointed that EIOPA is nevertheless continuing with work on the holistic balance sheet on its 'own initiative' without the EC's mandate. We do not believe that this is the right priority for EIOPA to be pursuing. EIOPA's focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states (namely defined benefit IORPs). We therefore believe that EIOPA should drop its work on the holistic balance sheet altogether. Given the increasing trend towards defined contribution pension provision, a much better focus would be on developing a framework for strong principles-based defined contribution governance standards across the EU. The UK has already been involved in developing its own governance regime, which could contribute to the development of best practice guidance across Europe. Solvency funding would be damaging for pensions, sponsors and the economy Compass Group is opposed to the idea of applying a regime based on Solvency II to IORPs (and to the use of the holistic balance sheet as a mechanism for applying such a regime). We believe that this will be	

			damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. It would also discourage other countries from establishing defined benefit provision. We believe that this cuts directly against the EC's goal of ensuring adequate pension provision across the EU. The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with lower assets to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it is likely to mean that they will be unable to compete effectively with non-European companies. As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This and could lead to significant market distortions and runs counter to the EU's current focus on encouraging long-term market investment. EIOPA should be aware that the impact of implementing its holistic balance sheet could go far beyond individual pension schemes. A full impact assessment would be needed before any steps could be taken on any of the options in the consultation paper to identify possible impacts on pension schemes and sponsoring employers, and also on wider long-term investment trends.	

			Sponsor support cannot be valued as a single figure One of the aims of the consultation is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We believe this to be an essentially misguided aim. The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer or employers, and on the situation of both the scheme and the employer(s). For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is being run on an ongoing basis with contributions continuing to come in. In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single number is bound to produce results that are spurious and misleading. Such a single figure would ignore, for example, subtleties such as negative pledges and dividend policies, which may well provide significant protection that funding will be available to a pension scheme in the long term without being captured at all by the single figure approach. Covenant assessment requires the exercise of expert	

			judgement in specific circumstances, rather than blind reliance on a model to produce a single number. Further, the existence of a single figure for the commitment of an employer to their pension scheme would inevitably feed into the rating agencies' assessments of a company's strength. Whilst we accept that it is right that an employer's commitment to their pension scheme should form part of an assessment of a corporate's financial position, we believe that there is a risk that the number calculated under the holistic balance sheet may be misleading and lead to inappropriate reassessments of a company's financial strength, for example leading to a higher cost of capital. Alternatively, the single figure approach could lead to an undervaluing of the real risk that a pension scheme presents to the continued existence of its sponsoring employer. In our view, an approach under which sponsor support is assessed in qualitative terms will be both more useful from the point of view of the trustees of the pension scheme, but also from the perspective of rating agencies assessing the strength of the company. The valuation of sponsor support will be expensive As noted above, trustees of IORPs already carry out often extensive work to assess the sponsor covenant. They are likely to continue to need to do so, even if a single figure approach is introduced by EIOPA (given that the single figure approach will not be able to replace the sophisticated assessments that currently take place).	

			If some of the proposals in this consultation were adopted, IORPs would therefore face the additional expense of having to carry out a separate single figure valuation of the sponsor support to plug into the holistic balance sheet. Such calculations would be time-consuming and use resources that could be better applied in improving the funding position of the IORP rather than in paying the costs of advisers. The consultation contains some welcome options We believe that the holistic balance sheet would be unnecessary, expensive and probably damaging both to pension schemes and to the sponsors who provide them. We recognise, however, that EIOPA has gone some way to addressing these serious concerns by considering allowing a principles-based assessment of sponsor support and/or for sponsor support to be included in the holistic balance sheet simply as a balancing item, by proposing an option of allowing the holistic balance sheet to be used purely as a risk management tool, and by introducing the possibility of a transitional regime in the event of a holistic balance sheet being introduced. In the event that EIOPA continues with its plans for a holistic balance sheet, we would urge EIOPA to develop these ideas further to make sure that the holistic balance sheet, if introduced, would not bring in deleterious consequences for pension schemes and the employers who sponsor them. The case for the holistic balance sheet has not been made	

			However, we think that neither the European Commission nor EIOPA has still not made the case, either practically or intellectually, as to why the holistic balance sheet needs to be introduced. What are the fundamental concerns that the holistic balance sheet would be addressing? What would the consequences be of retaining the status quo? The UK pensions regime has been resilient during tough economic conditions In the UK, for example, the combination of a strong regulator, a practical funding regime that recognises the need of both pension schemes and their sponsoring employers, good trustee governance and the ultimate protection of the Pension Protection Fund had provided a durable and resilient framework even in the most extreme economic conditions. The holistic balance sheet could actually undermine and even conflict with strong existing requirements at member state level. EIOPA should therefore consider the benefits of dispensing with the holistic balance sheet altogether. It is inappropriate that retaining the status quo is not even considered as one of the six examples in the last section of the consultation paper. Our response We have commented on a few of the specific questions asked by the	

			consultation, but have not focused on the technical detail. Our silence on a particular question should not be taken as assent, nor should the fact of us responding to this consultation at all be taken as us agreeing to the concept of the holistic balance sheet or to the placing of a single value on sponsor support.	
27.	D & L Scott	General Comment	By way of introduction, I have been a professional pension trustee in the United Kingdom for over 27 years. I act as chairman or as an independent professional trustee for a number of small and medium-sized IORPS and I have also chaired one of the United Kingdom's largest multi-employer IORPs, the Railways Pension Scheme, between 2007 and 2014, and was a Government-appointed trustee of the Mineworkers' Pension Scheme between 2002 and 2008. I am also a member of OECD's Network on Institutional Investors and Long-Term Investment. My initial comment is to say how disappointed I was with the length of your consultation paper at 163 pages and the number of questions – 111 – which you have set for respondents. While I appreciate that the solvency of IORPs is an important topic for all trustees and other fiduciaries, I am very, very disappointed that have chosen such a length of consultation document which is, therefore, beyond the ability of almost all trustees to respond. By way of comparison, the scheme annual report with which United Kingdom trustees communicate with their members and other interested parties is typically around 30 pages in length, and summary reports are typically only 4 to 8 pages in length.	Noted.

			I accept that solvency regulation is a technical subject, but I do believe EIOPA should seek ways to engage with the vast majority of trustees and other fiduciaries by using much, much shorter documents. The UK Pensions Regulator, for example, has introduced Essential Guides which are much shorter than underlying non-statutory Codes of Practice. For example, the Essential Guide to the DB [Funding] Code runs to 9 pages only, whereas the most recent Code of Practice Number 3 runs to 51 pages. What follows are my personal views since it has simply not been possible to engage with fellow trustees in open discussion of your consultation paper given its length and timing (a 3-month period including a holiday period, and spanning part of the calendar in which many IORPs with April or even December year-ends do not normally meet). I regret this, and would urge EIOPA in future to find better ways of engaging not only with regulated parties such as trustees, both professional and lay trustees, but also with members' representatives such as trades unions and member-nominated trustees.	
28.	EAPSPI	General Comment	The European Association of Public Sector Pension Institutions (EAPSPI), which covers 25 pension institutions and associations of the public sector out of 15 European countries and speaks for more than 25 million active workers and retirees throughout Europe, would like to make the following general remarks ahead of the answers in detail: I. EAPSPI still agrees with the general aim of the Commission in the Call for Advice of April 2011, according to which a risk-based supervisory system for IORPs should be developed – but for this purpose the IORP Directive should be the starting point.	Noted.

			Thus EAPSPI continues to be of the opinion that the supervision of IORPs requires a sui generis regulatory regime that truly accounts for the differences between IORPs and insurance companies. Due to the differences of pension schemes all over the EU, EAPSPI suggests respecting these differences among occupational pension systems in the different member states when amending the regulatory framework. The development of a supervisory regime sui generis, which in particular differs from the Solvency II regime for insurance undertakings, is justified due to the basic differences between IORPs and insurance undertakings, as EIOPA itself has identified several times (in particular in the second consultation document on the review of the IORP Directive, EIOPA-CP-11/006, see 9.3.6 a – h as well as in other EIOPA documents and communications). EAPSPI has reservations that, in spite of this commitment, the current Consultation Paper on further work on solvency of IORPs as well as EIOPA's discussion paper on sponsor support of 2013, the technical specifications for the IORP QIS of 2012 as well as EIOPA's previous consultations on the IORP review are built on the Solvency II principles and structure. II. The current Consultation Paper (CP) makes an attempt to improve on the shortcomings of the holistic balance sheet (HBS) in particular on the valuation of sponsor support by delivering further valuation approaches (i.e. the balancing item approach - BIA) and it tackles the urgent question of how the HBS is going to be used as a regulatory instrument. EAPSPI wants to underline the following points prior to the statements to the specific questions:: ☐ EAPSPI welcomes that EIOPA for the first time is addressing in	

			detail the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide Solvency Capital Requirement (SCR), tiering of assets, recovery period) although we think that this should have been answered at a much earlier stage before the in-depth-analysis of the HBS elements. ☐ EAPSPI is still of the opinion that the concept of the HBS should not be applied to IORPs. The reason is that the HBS and the calculation of the SCR fully rest on the Solvency II structure regarding the market-consistent valuation of assets and liabilities and the measuring and quantifying of risks which EAPSPI regards as unsuitable for IORPs (see also part IV of this introduction below). By maintaining this structure, the HBS itself is not an appropriate approach for IORPs. The fact that security mechanisms of IORPs are considered at a later stage may not solve this basic problem. ☐ In general EAPSPI is of the opinion that the qualitative requirements as proposed in the 4th IORP II Compromise Draft of the Italian Presidency (in particular Art. 29 Risk Evaluation for Pensions) sets accurate and sufficient requirements with respect to risk management of IORPs. Minimum funding requirements and valuation standards should continue to be determined according to the current IORP directive. Regulatory consequences of the HBS analysis in risk management should only be determined by national supervisors (i.e. recovery plans with long recovery periods). It must be clearly understood that the use of the HBS will not be broadened: in a first step an introduction as risk management tool followed by the second step to use the HBS for strict harmonization of valuation and funding. ☐ The HBS should not be used to lead to EU-wide harmonization of calculation of technical provisions (Level A technical provisions),	

			especially for the reason of putative comparability for an internal market of pensions, if this leads to a higher cost burden for employees and employers and detrimental effects for the entire IORP sector in consequence. As EIOPA clearly analyses the result would be negative effects for occupational pensions, sponsors and economic growth (i.e. 5.86, 5.177, 5.179 and 5.188) – thus the result is not worthwhile especially as according to the result of the answers to the Green Paper on Pensions of 2010, "a number of respondents, mostly among the employers, suggested that, at least for the time being, a review of the current rules is not necessary or that a single approach is not possible." (Commission's summary of 7/3/2011 of responses to the Green Paper, summary of Q 10, p.20; see also Q72 and Q85). ☐ Within the discussion surrounding the HBS, EAPSPI in general welcomes the official introduction of the "balancing item approach" (BIA) in combination with the simplified and heuristic check of sponsor strength by using PwC's "M" approach. But EAPSPI strongly suggests – if the HBS should be introduced at all – that in case of a strong sponsor, multi-employer-scheme (MES) IORP or instances of other security mechanisms, these should constitute truly exceptional cases that should release an IORP from explicitly setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements. The rationale is that in the cases of the application of the BIA, the strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation (including the use of risk free interest rates) is not needed any more because the strength of the sponsor avoids the necessity of a transfer of the IORP's assets and liabilities and further specific quantifications seem to be superfluous. Especially in the case of MES, the BIA captures the notion that a large number of sponsors in the end is in charge of the settlement of	

			pension claims (= HBS) and also serves as cushion for adverse developments (=SCR). This illustrates the flexibility of the sponsor support of MES IORPs and delivers a flexible protection of pension claims with solidarity. III. EAPSPI welcomes that EIOPA still explicitly recognizes that the non-standard case of non-corporate sponsors, especially public sector entities and charities which are in addition mostly multi-employer-schemes (MES), deserves specific considerations. However the range of suggested valuation approaches (except for the balancing item approach) are still not suitable / workable for not-for-profit and public sector sponsors, as EIOPA has not yet further developed solutions for quantifying the sponsor support in a reasonable and feasible way related to these kinds of sponsors compared to EIOPA's Sponsor Support Consultation and EIOPA's Sponsor Support Event on 17th October 2013 - these problems are still unresolved. (see Q67) With respect to the use of the balancing item approach for valuing sponsor support, EAPSPI suggests that - multi-employer schemes with large number of employers, legally enforceable sponsor support and joint financing should automatically qualify for applying the balancing item approach without reference to the strength of the individual sponsor (in addition to the listing in no. 4.4 of the consultation document). The rationale for this is that MES with a sufficient number of employers and joint financing could be seen as a means of collective pooling of default risk of individual sponsors – in analogy to the suggestions of EIOPA regarding pension protection schemes (PPS) in 4.248 of the consultation paper.	

			IV. EAPSPI again wants to expresses its general concern with the HBS as presented in the IORP QIS of 2012. As the present consultation paper (and earlier consultations) does not offer the possibility to address this general issue, EAPSPI is taking this opportunity to present its general reservations about applying the Solvency II principles, the SCR structure and the HBS concept to IORPs. It is not possible to answer EIOPA's question in the discussion paper on the details of the sponsor support without being able to refer to this argumentation. ☐ The Solvency II regime is not necessary for IORPs. The already existing security mechanisms have proven to be safe during the recent crisis. ☐ IORPs have specific inbuilt security mechanisms that ensure the solvency position of pension schemes. In some pension schemes, contributions and the main benefit parameters can be modified by employers and employees' representatives. ☐ Many pension schemes, especially of the public sector in the Netherlands, Scandinavian countries or in Germany, foresee paritarian management. Paritarian management involves social partners on the Board of Directors of the IORP or in similar internal supervisory bodies. Due to paritarian representation, the interests both of the employers and of the employees and beneficiaries are well-balanced and the benefit security can therefore be ensured. ☐ Due to the fact that IORPs (especially in the public sector) are social institutions and therefore not chiefly for profit organizations, the possibility of a potential conflict of interests between member protection and profit maximizing behaviour and dividend payments is minimised.	

			☐ For DB- and hybrid DB-/DC-schemes, in at least some Member States, employers have the ultimate responsibility to fulfil the respective pension commitment ☐ The structure of Solvency II is not appropriate for the regulation of IORPs due to the differences between IORPs and insurance undertakings. We consider the market value based approach inadequate for liabilities with such long durations as well as for valuing assets: No transfer of liabilities and assets need be permanently possible due to the tri-party-relationship (employee, employer and IORP). Because of the long-term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. As it is not necessary that liabilities and assets of IORPs may at all times be sold at market prices (because of the relation to sponsors) the way risk is financially measured under Solvency II (i.e. the SCR standard formula or the way the risk margin is derived) is not appropriate. Because of the long term nature of pensions, the actual risks IORPs are facing differ from those of insurance undertakings. Indeed the stable and long-term character of IORPs' liabilities has various risk mitigating effects. The methods of measuring and quantifying financially the risks of IORPs as laid out in Solvency II do not fit the nature of IORPs. These aspects should be taken into consideration when redesigning the regulatory framework for IORPs. ☐ Additionally EAPSPI is of the opinion that the HBS is not able to reach the intended goal of the European Commission, namely to precisely assess and quantify the "true risk position" of IORPs (CfA 4.1 from March 2011), because of the design and the valuation of the HBS. The valuation methods specified for the QIS still involve a high degree of arbitrariness and leads to pseudo-certainty which	

			contradicts the notion of a neutral, objective and informative balance sheet. This problem arises in case of the various suggested methods of quantification: stochastic modelling strongly depends on the (often arbitrary) choice of parameters and models which make results hard to compare. With respect to the (simplified) deterministic valuation approaches it is not clear if the suggested simplifications are appropriate or even correct. Therefore, the results of stochastic modelling and the simplified deterministic approaches do not support the goal of comparable results as EIOPA clearly analyses in chapter 4.5.6 "Quantitative comparison of some valuation methodologies" of the CP (especially 4.244 and 4.245). This task becomes even more complex when it comes to evaluating the financial soundness of a public sector institution as employer and sponsor. ☐ In those cases where the HBS includes existing security mechanisms such as sponsor support, pension protection schemes, benefit reductions and where the HBS is used to trigger regulatory actions (recovery plans) the question remains: which regulatory options are available within a recovery plan at all in case of a shortfall within the HBS since all security mechanisms are already included?	
29.	EEF	General Comment	About EEF EEF, the manufacturers' organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost 1 million workers, EEF members operate in the UK, Europe and throughout the world in a	Noted.

			dynamic and highly competitive environment. The subject matter of the EIOPA Consultation Paper significantly affects EEF member companies, who have a long history of providing Defined Benefit pension schemes. Such companies have long-worked in partnership with their employees' representatives and the trustees of their pension schemes to provide greater income security in retirement for their workforce. This represents a considerable investment by employers, who see the provision of pensions as an important positive contribution made for the benefit of their workers. EEF's views on the direction of travel set out in the Consultation Paper EEF strongly disputes that there is any need for further EU-level reform on the solvency of IORPs. We also believe that, given the diversity of pension arrangements across the EU, it is inappropriate to search for one approach at EU-level. In line with the subsidiarity principle a revision of the IORP Directive or the supervisory regime in the direction of a Holistic Balance Sheet (HBS) would not be appropriate. Also, EIOPA has acknowledged that occupational pension schemes and insurance products are different. The providers of IORPs do not operate in the same market as insurers; occupational pensions are	

			accessed by the labour market not the financial product market. They generally operate on a not for profit basis and represent a benefit provided to employees whilst employed by a specific employer. They also have a very different risk profile and there are mitigating mechanisms for managing that risk. However, instead of drawing the conclusion that there is logically no inherent difficulty in them having different supervisory regimes, the direction of travel set out in the very fabric of the HBS approach is still towards a Solvency II pathway despite the amendments made to the original HBS proposal. Whilst we welcome the amendments they do not go far enough; our preference remains for the HBS proposal to be dropped. In our view the Consultation Paper proposes a solution to an ill-defined problem with enormous financial implications. We note that EIOPA's Quantitative Impact Assessment demonstrated that the original Holistic Balance Sheet proposal would have increased UK scheme deficits by £150 billion. EEF does not support any approach that without a very good business case requires IORPs to raise the amount of funding. UK employers are dismayed that a revised approach to the regulatory regime along the lines set out in the Consultation Paper would lead to a very significant rise in the technical provisions. The prospect of further revision to the funding regime is leading to a sense of intolerable instability. This climate of uncertainty, stretching over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer Defined Benefit schemes. For these employers, and those who have already closed their schemes to future accrual of benefits, they are also concerned about the impact on their investment plans for jobs, growth and capital infrastructure.	

			Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity and risks triggering changes in employer behaviour as they anticipate the worst. By way of example, we have had a number of years of highly prescriptive pension regulation in the UK based on the existing IORP Directive. Such have been the transformation costs towards the current regime that many employers have closed their DB schemes to future accrual. Consequently, and in summary, EEF reiterates its long-held view that further reform of the supervisory and funding arrangements runs a real risk of an illusory 'pension security', as employers will be compelled to close the remaining DB schemes to future accrual. Also, the financial impact on many companies, even those that have already closed their DB schemes to future accrual, could result in companies ceasing to be profitable, risking reduced investment in jobs and Research and Development, and even closure. The overall impact will be one of reduced overall employer investment in workplace pensions. The HBS initiative is, therefore, highly unlikely to foster more sustainable pension saving and provision. Therefore, we urge EIOPA to pause the work which is the subject of this Consultation Paper, and which is being undertaken without a clear political mandate from the EU. We are also mindful that a robust system of risk management and	

			protection for scheme members' benefits is already in place in the UK. It has been stress-tested by valuation rounds against the backdrop of a deep recession and has withstood that challenge. We do not advocate a fundamental review of a system that has been tried and tested through such difficult times without a clear rationale for doing so.	
30.	EVCA	General Comment	☐ The European private equity industry welcomes the opportunity to comment on EIOPA's Consultation Paper on Further Work on Solvency of IORPs. We will focus our comments on the areas of key relevance to the private equity industry. ☐ Pension funds invest in the private equity asset class as the characteristics of such investments correspond well with their long-term investment horizon and meet their interest to invest in an asset class of substantially different characteristics compared to listed equities and bonds. Private equity funds, which operate over at least a ten year period, have for many years been trusted by many of Europe's largest providers of current and future pensioners' income as a source of stable, strong, risk adjusted returns. This explains why, in the period from 2007 - 2013, pension funds accounted for over 27% of all funds raised by the European private equity industry (35% in 2013). ☐ Due to the very positive risk-/return characteristics and the long-term investment horizon of private equity funds, many pension	Noted.

			funds currently hold large allocations to private equity. In some cases the allocation even reaches a quarter of the total assets of the pension schemes which is a big difference to the allocation of a typical insurance company. ☐ Private equity not only delivers strong returns to pension funds - critical for defined benefit funds to be able to meet their pension liabilities as they fall due and to defined contribution funds to generate the wealth required to provide the member's future retirement income – but also provides the long-term investment needed to deliver growth in the real economy. It is this long-term growth, sustained by long-term capital, which provides a foundation for job creation, investment and tax revenues. Over the past four years, European pension funds have invested €73bn, via private equity, in European companies. More than 87% of private equity backed companies are small to medium sized enterprises ("SMEs"), which constitute the backbone of the European economy. ☐ Private equity is an asset class which adds value to a pension fund portfolio through a high degree of diversification. The typical investment form of a pension fund is through private equity funds. As a private equity fund typically invests in a number of portfolio companies over a three to five year investment period, the pension fund is able to build up a highly diversified portfolio of privately held companies. These companies operate in different industries, countries or even continents and are in different life cycles of their business. With only a few private equity fund investments, the average pension fund holds a portfolio of privately held companies, which then have backing they need to grow.	

			☐ Private equity is a long-term asset class that focusses on the long-term growth of the companies in which it invests. Hence, it is very different to hedge fund strategies. The lifetime of a private equity fund is also typically around 10 years and as there are no possibilities for early redemption the companies receiving investments are given time to develop their growth strategies over many years. ☐ The private equity industry recognizes the importance of having a robust regulatory framework to help ensure the security of pension benefits to members. However, we have concerns whether private equity can be included in a feasible and appropriate way in the Holistic Balance Sheet (HBS) approach; especially with a mark-to-market valuation tool. We also feel that the potential application of Solvency II–style requirements to IORPs might be inappropriate and disproportionate. We are concerned that if such rules were implemented they could affect pension funds' investment strategies resulting in a number of negative consequences for pension funds and their members and for private equity and the wider economy. ☐ Although we understand that within any supervisory framework it is always going to be a challenge to balance the key elements involved (risk and return; assets and liabilities; short-term and long-term) we are convinced that there is a need for such a balance in any framework for the EU pension industry. A simple focus on short-term, downside risk protection may underplay the importance of the broader risk to the economy of inadequate returns being achieved to fund retirement provision, or as a result of capital being misallocated. In this regard we strongly believe that return-seeking assets, such as private equity, have an important role to play in pension provision. Exposure to return-seeking assets is necessary to generate the real	

			returns needed to meet the pension liabilities as they fall due. They also help mitigate the costs of providing pensions as without the ability to generate real returns, the cost of funding pension provisions would be higher for all stakeholders. ☐ We welcome the acknowledgement by EIOPA (and the Commission) that IORPs are suppliers of long-term capital to the European economy through investments in assets such as private equity. Private equity is an asset which benefits IORPs by being a return seeking asset with low long-term risks and benefits the wider economy by providing long-term capital to the economy and helps build sustainable businesses. ☐ We think it is important for all IORP stakeholders, and for the wider economy, that a new regulatory framework should not discourage IORPs from making a decision to allocate assets to private equity (or any other asset class traditionally invested in as part of a balanced, prudently-diversified portfolio). While all decisions need to be made in a considered and measured fashion, taking into account the liabilities and circumstances of IORPs, we believe that an IORP should have some flexibility, within the suggested regulatory framework, to determine how to balance the various detailed decisions to be made, with regards to its assets and liabilities. ☐ It is our firm belief that any framework, which effectively discourage IORPs for making a decision to allocate assets to a particular long-term asset class would not be in the interests of any of the stakeholders involved. In addition to the direct impact on long-term investments and the potential impact on growth in Europe, this would also restrict the investment choices for IORPs, which can result	

			in lower long-term returns for their members and less diversification. ☐ We understand the importance of setting a robust supervisory framework within which IORPs can operate. However the private equity industry's key concern is with EIOPA's recommendation that all valuations should be market-consistent. We think that the market-based approach for valuing private equity represents a fundamental misunderstanding of the risk faced by an institutional investor, like pension funds, in this asset class. ☐ When valuing investment, some assets are not tradable assets with a daily market value. It is, therefore, not appropriate to disregard this fact when applying a valuation methodology to such assets. The attempt to do so will produce a number which is without meaning in terms of valuation – the number calculated will bear little or no relation to the actual value of these assets to the investor. Consequently, should such a "value" be incorporated in the HBS, it could well deter IORPs from considering allocating assets to that asset class. Private equity is an asset class for which it is neither logical nor warranted to take a standard mark-to-market approach to valuation. ☐ In order to apply a market-based valuation methodology, it assumes that the asset class has a daily price that can be independently sourced. It further assumes that the market is both liquid and deep (large volumes of transactions can be rapidly executed without major impact on the market price). It is characteristic that transactions are sufficiently frequent to define the market price. ☐ IORPs most generally gain exposure to private equity via a	

			portfolio of unlisted funds. These unlisted funds do not have the characteristics required to apply a market-based approach to valuing them. But with a widely-recognized modification it is possible to fit a non-marketable asset class into market-based framework. ☐ When it is not possible to use a market-based approach a mark-to-model approach is generally adopted, i.e. the valuation is identified by reference to benchmarking and extrapolation. It also requires independent verification of the values used. The private equity industry has set down international guidelines on valuation based on such an approach which have widely been adopted across the industry (and in academic research on the industry) and used for many years. ☐ Unless a modified approach to determining the "market value" of private equity assets is taken within the HBS framework, then IORPs will be deterred from considering investing in the asset class on behalf of their beneficiaries. We believe this will have a detrimental impact for all stakeholders in the IORP, by reducing the scope to generate real returns to meet liabilities, thus potentially reducing security to beneficiaries and increasing costs. ☐ In addition, if IORPs reduce their allocation, or cease to allocate assets to private equity it will have a detrimental impact on the provision of long-term capital to European companies, with the subsequent adverse consequences for the health of the European economy. In 2013, private equity industry invested more than EUR 35 billion in approximately 5,000 companies in Europe. More that 87% of all private equity investments are in SMEs and this is investment that yields real benefits for the economy.	

			☐ While we recognize that private equity is a smaller part of just one section within the overall HBS, we believe that without a simple, and technically correct adaptation of the market-approach to valuation, both IORPs (and all their stakeholders) and the health of the European economy would be disproportionately adversely affected, no matter which of the proposed supervisory frameworks were to be adopted. However, we would also like to highlight that compared to insurance companies, private equity plays a more important role in pension funds' allocation and the allocation of some large and sophisticated global pension funds even reaches up to a quarter of their entire asset allocation. A change in regulation might have a massive impact on their future return-/risk characteristics. ☐ We would welcome the opportunity to engage with EIOPA (and the Commission) and provide further information and analysis on this subject to assist in ensuring the above mentioned adverse consequences are avoided.	
31.	Eversheds LLP	General Comment	Eversheds supports EIOPA's aims of having objective and transparent assessment of the financial security of IORPs and the sound management of risks. We agree that these should be achieved in a manner that recognises the specificities of pension schemes throughout the EU. However, Eversheds does not support the Holistic Balance Sheet as the means of achieving these ambitions, on the basis that we think that it should be left to Member States to develop a robust system of risk management and protection for IORPS, which is suited to the	Noted.

			specificities of IORPs within the relevant Member State. Several Member States, such as the UK and the Netherlands, already have robust risk management and protection systems for IORPs in place and, rather than attempting to introduce a new regime, EIOPA's focus should be on ensuring that those Member States that do not currenty have sufficiently robust systems in place take action to address this. Given the diversity of the 28 different pension systems within the EU and of the vast array of different IORPs throughout the EU, we do not think that a one-size-fits-all approach is appropriate and, instead, in line with the doctrine of subsidiarity, we think that the prudential regulation of IORPs should be dealt with at Member State level. In addition, EIOPA's own Quantitative Impact Study demonstrated that the original Holistic Balance Sheet proposal would (on the benchmark scenario) have increased the deficits of UK defined benefit schemes by £150 billion. This would overstate the extent of DB deficits in the UK (and similarly in other Member States) principally through the use of an unnecessarily exacting discount rate regime. This would be a very significant blow to the sustainability of DB schemes in the UK (and other Member States) and, in the UK, it would very likely force the closure of the remaining 14 per cent of such schemes that are still open to new members and the complete closure of many of the 50 per cent still open to further accrual by existing members. Adding billion to the liabilities of IORPs within the EU and requiring sponsors to fund their schemes to this level would also have a significant economic impact. Funds would be diverted away from business investment which is likely to negatively impact growth and jobs at a time when Europe needs to do all that it can to promote	

			economic growth and employment. Indeed these are two key priorities identified by Jean-Claude Juncker for the new European Commission. In addition, one of the most welcome EU developments in recent months has been the European Commission's increased emphasis on long-term investment, not least in the €315 billion investment package unveiled by President Juncker on 26 November 2014. However, the European Central Bank has warned that a holistic balance sheet-based regulatory regime could undermine investment in growth assets and push more investment towards low-risk bonds. This is a significant critique, directly relevant to Europe's economic future. These comments notwithstanding, we welcome the wider range of options and new flexibilities put forward in this consultation. We recognise that EIOPA has been willing to engage with stakeholders and has taken note of many of the concerns raised in previous consultation rounds. Regarding the specific issues raised in this consultation, we consider that the following overall approach should be adopted: - Sponsor support. It would be a mistake to try to put a single numerical value on sponsor support, as this is a complex concept that requires a rounded assessment to ensure IORPs fully understand the extent to which they can rely on a sponsor's backing and the risks associated with it. For this reason, the proposal to use sponsor support as a 'balancing item', as proposed in para 4.112, is a welcome improvement on previous versions of the proposed holistic balance sheet. We also welcome the proposal that a principles-based approach should be adopted with regards to the valuation of sponsor support	

			with the specifics of this being developed at a national level and/or by individual IORPs themselves. - Non legally enforceable sponsor support. We do not think that non-legally enforceable sponsor support should be included on the holistic balance sheet on the basis that the prospect of such support being provided to the scheme in the future is too uncertain and, therefore, it would be imprudent for IORPs to rely upon such support in assessing their solvency. - Pension protection schemes - We do not think that pension protection schemes should be recognised on the holistic balance sheet on the basis that, in our view, the purpose of a prudential funding and regulatory regime is to avoid such schemes having to be used. Recognising pension protection schemes on the holistic balance sheet implies that IORPs are expected to need to use such schemes. It may also mean that the solvency position of an IORP is overstated in the holistic balance sheet which may in turn, perversely, make it more likely that pension protection schemes will need to be used. Recognising pension protection schemes on the holistic balance sheet would also be inconsistent with UK case law. - Benefit reduction mechanisms. We do not think that benefit reduction mechanisms should be recognised on the holistic balance sheet on the basis that, in our view, the purpose of a prudential funding and regulatory regime is to avoid such mechanisms having to be used. Recognising benefit reduction mechanisms on the holistic balance sheet implies that IORPs are expected to use such mechanisms. It may also mean that the solvency position of an IORP is overstated in the holistic balance sheet which may in turn,	

			perversely, make it more likely that such mechanisms will need to be used. - Supervisory responses. If EIOPA and the European Commission were to insist on pressing ahead with the Holistic Balance Sheet (contrary to our views), then the best option would be use as a risk management tool (i.e. Example 6). Example 1 would have a devastating impact on the European economy. - Transition period. It is essential to have an appropriate transitional period between the entry into force of any legislation on the holistic balance sheet and practical implementation as a funding regime to enable IORPs and sponsors to prepare for this. We would propose a transitional period of at least 10 to 15 years or perhaps even 25 years as this would reflect the time by which most IORPs in the UK are aiming to be self sufficient. - Future accruals only. We support the option of applying the holistic balance sheet to future accruals only which is put forward in the consultation paper. EIOPA should also note that compiling the Holistic Balance Sheet will be a significant new task for IORPs, with considerable costs attached. About Eversheds LLP We have the largest team of pensions lawyers in the UK. Our clients	

			include IORPs, sponsors, insurers and Government departments. Eversheds is also a member of PensionsEurope and has pension lawyers working throughout the EU. Our response represents our own views on the issues raised in this consultation paper and not those of our individual clients. However, in forming our views we have taken account of our clients' interests and concerns. If you have any queries in relation to any of the points raised in our response please contact Tim Smith on 0845 497 4650 or by email at timsmith@eversheds.com.	
32.	Evonik Industries AG	General Comment	As employer Evonik Industries AG accompanies BDA, Confederation of German Employers' Association calling upon the European Commission and EIOPA to refrain from increasing the capital requirements for IORPs and especially from extending the requirements of Solvency II to IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardise not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this in the end to the detriment of beneficiaries. Therefore, the continued technical work by EIOPA on the HBS is not the right approach. In contrast to that, we repeat our suggestion of the last consultation in October 2013, that the European Commission should develop with support of EIOPA and in dialogue with the social	Noted.

			partners a tailor-made European supervision regime for IORPs primarily oriented on minimum standards and the principle of subsidiarity. Although EIOPA thinks that the HBS methodology will be required in one or another form, the recent version of the IORP directive proposal actually does not justify any quantitative requirements based on the HBS approach. It must be noted that the HBS approach does not adequately fit to the social character of IORPs and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Every move towards a system that places more burdens on IORPs and their sponsoring undertakings contradicts the fact that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases the employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. European employers cannot afford more costs due to the fact that their secondary wage costs are already at such a high level that any further increase will pose a threat to their international competitiveness. As a result, higher costs are likely to lead to a decrease in benefit level and coverage of occupational pension plans.	

			We generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, but for occupational pensions labour law does not allow early cancellations. Instead of that we would prefer to see a strengthening of the subsidiarity principle by allowing options which give the Member States the responsibility for defining regulatory details in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In Germany pensions are safeguarded already by labour, co-determination and social law. Additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if a sponsor invests in his own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP. Last but not least, the prospect of further revision to the funding regime is creating considerable instability for employers. This climate	

			of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads them to revisit their commitment to continuing to offer workplace pensions of the kind which would be affected. These employers are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses for increasing their level of investment. Furthermore, this continuing uncertainty about the scale of revisions to the supervisory regime may have a significant detrimental impact upon wider economic activity in our sector and trigger changes in employers' behaviour as they could anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. In summary, the HBS approach is unsuitable for company pensions and should therefore be omitted. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise.	
33.	FFSA	General Comment	FFSA is pleased to comment on EIOPA's consultation on "further work on solvency for IORPs and welcomes the EIOPAs initiative to produce technical specifications in view of an EIOPA quantitative impact assessment and, subsequently, technical advice to the European Commission on EU solvency rules for IORPs. We believe that further discussions will be needed as a follow-up to this consultation and welcome EIOPA's intention to conduct a second Quantitative Impact Study.	Noted.

			About the consultation, FFSA thinks that the main principles with the HBS should be the following : - Consistency with Solvency II : the principle of same rules-same capital should apply between IORPs and insurers. Also given the long-term nature of pensions FFSA would advise to take a long-term approach in the risk evaluation both for IORPs and retirement contracts in Solvency II. - HBS should be used as a tool to perform a risk evaluation for pensions and to quantify and describe the pension deal and its financing to supervisor and beneficiaries. But it cant replace solvency requirements wich will have to be put in place. - All valuation rules should be harmonised at EU level (interest rate etc) to insure the same level of protection for beneficiaries. The supervisory framework should reflect this so that adjustments be introduced in order to better adress long term nature of pension liabilities. As for the valuation, since the HBS presents a member's/beneficiary's perspective, we dont think that rights attributed to members should play the role of adjustment variable in the project. In the extreme, it could lead to envisage that the portion of the pension benefits that can not be funded, could be included in the balance sheet. A relevant regulation should properly treat cross-border activities by ensuring harmonisation at European level while avoiding unlevel playind field within the EU. Sufficient attention should be paid on the risk that different solvency regimes may apply in one single country which would endanger members or beneficiaires protection of that country. This holds true where lower solvency requirements are	

			permitted for cross-border activities.	
34.	FSUG	General Comment	The Financial Services Users' Group (FSUG) welcomes the initiative of EIOPA on valuation and solvency of IORPs and supports the EIOPA initiative to make IORPs more transparent and stable in favor of members and beneficiaries. In the context of this work, FSUG thinks that the issues of IORPs´ solvency should be treated very carefully within the context of IORP Directive review. Not only the HBS should be in the centre of focus, but also additional aspects related to PBS as the solvency of IORP should be clearly linked to the promises given to members (and sponsors) on one side and the transparency of expected benefits presented in Pension Benefit Statements. These two sides should be well balanced.	Noted.
35.	FVPK	General Comment	Introduction First of all the Fachverband der Pensionskassen in Österreich (referred to as FVPK) welcomes the possibility to comment on such an important matter. We also welcome the mapping exercise published together with the consultation on solvency for IORPs which shows the many existing differences between and in the Member States with regard to occupational pension provision. The mapping exercise also showed that it would be useful to clearly distinct between the relations between (1) employee/beneficiary and employer, (2) employer and IORP and (3) employee/beneficiary and IORP concerning terms of given promises and/or guarantees. For example there can be a defined benefit promise in relation (1) that is financed by defined contribution plan in relation (3) and an additional guarantee in relation (1).	Noted.

			FVPK wants to point out, that Austrian legislation implements a clear borderline between the funds dedicated to pay benefits and the optional additional guarantees that can be granted by the IORP. The funds dedicated to pay benefits may never be used as own funds to cover the guarantees. The benefits to be paid are always defined contribution (DC) but may be used in calculating additonally granted guarantees. There have to be separated own funds to cover these additional guarantees. These additional guarantees are at a very low level, as is reflected in the actual guarantee-payments since 2002 (there have been no payments before that year) in relation to the funds dedicated to pay benefits: average yearly guarantee-payments were less than EUR 1.500.000, average yearly underlying pure DC benefit payments were EUR 424.600.000, average pure DC-funds were EUR 12.146.000.000. The separated own funds to cover the optional additional guarantees amount to EUR 191.700.00 in the average. So the guarantee-payments were less than 0,5% of benefit payments. Use of the Holistic Balance Sheet in Austria Regarding the specific issues raised in this consultation FVPK's position can be summarised as follows: With regard to the fact that the main part of the benefits is pure DC and only an optional additional part consists of guarantees, FVPK thinks, that using the HBS in Austria there is ☐ no significant positive effect on the protection of members and	

			beneficiares ☐ no positive effect on functioning of the internal market ☐ no positive effect on sponsors and long-term investments ☐ no positive effect on Austrian IORP system. These statements cover use of HBS in any of the tree pillars. We expect rising administration fees in the case HBS has to be implemented in Austria. These administration fees will reduce benefits so we think the contrary of the intended effect will be the case.	
36.	GDFSUEZ	General Comment	About GDFSUEZ GDFSUEZ sponsors several pension schemes operated through IORPs, among others in the United Kingdom, Belgium and the Netherlands. About this consultation Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, EIOPA should not continue with work on the holistic balance sheet on its 'own initiative' without an explicit mandate from the EC.	Noted.

			It makes no sense to discuss prudential rules for IORPs before any political decision is made about their role in the overall pension system and in the economy of the European Union. The starting point of the debate should be the principles stated in the White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" and in the Green Paper on "Long-Term Financing of the European Economy". First pillar pensions will be limited by the scarcity of Member States resources, and occupational pensions must then form a growing part of European pension systems. Today, less than a half of European citizens have access to a workplace pension. Increasing the regulatory burdens would jeopardize existing and well-established pension schemes and dissuade sponsors to establish new schemes. Nevertheless we welcome this opportunity to express our concerns about the future of occupational pensions in Europe. Our answer below follows discussions held with many other international companies that sponsor major IORPs in the European Union. Sponsoring companies are key stakeholders in this debate, and we need to stress that their representation is in our view not properly ensured in the OPSG of EIOPA. About the relevance of solvency requirements for IORPs We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. More generally, we do not agree that the prudential framework for occupational pensions is derived from Solvency II.	

			Like many other stakeholders (pension funds, employers, trade unions, governments, OECD…), we fear that the proposed quantitative approach might have serious adverse consequences on pension systems, employment and long term investment in Europe. Moreover, addressing the solvency of pension schemes only when they are operated through IORPs would be in complete contradiction with the principle of "level playing field" the project of a new directive was supposed to promote. It is fundamental to make a distinction between the solvency of pension institutions taking financial commitments and the solvency of pension schemes when it relies on the sponsoring entity. The European Commission has, to a large extent, acknowledged these concerns and decided not to introduce additional solvency requirements in its future IORP Directive. Therefore, it is not clear why EIOPA continues technical work in this area.	
37.	GDV	General Comment	German Insurance Association, Wilhelmstr. 43G, 10117 Berlin (ID Number 6437280268-55) The GDV welcomes the opportunity to comment on EIOPA's	Noted.

			consultation on “Further Work on Solvency for IORPs”. The GDV supports the introduction of a regime that appropriately takes into account specific risk profiles and the specific characteristics of IORPs. The most important characteristics of German IOPRs are: - The existence of a pension protection scheme (“Pensions-Sicherungs-Verein auf Gegenseitigkeit” PSVaG), - The possibility to receive additional financial contributions from the sponsoring undertaking(s) when necessary (sponsor support). The GDV is in favour of more transparency on the risks and greater security for members and beneficiaries. Since security and benefit adjustment mechanisms have a sustained impact on the likelihood of an IORP meeting its obligations as well as of members receiving the benefits they are entitled to, they have to be taken into account and properly reflected in all three pillars of the supervisory regime. Furthermore, it is important to assess the share of risk borne by an IORP itself compared to the risk borne by the sponsoring undertakings. Finally, it is important that the prospective members, members and beneficiaries are informed about risks and characteristics of the pension scheme offered by their IORPs. As regards the consultation paper and the six different examples of the HBS described, the GDV wishes to point out the following: The GDV has always assumed that the HBS is designed as a basis for calculation of the capital requirements for IORPs. We do not see any obvious reason why EIOPA is now considering a possible application of the holistic balance sheet as a risk management tool. Especially if some of the risks are absorbed by security mechanisms, such as	

			sponsor support, it is not clear how the IORP could steer its risk management according to the HBS. Moreover, the extensive new requirements resulting from this approach would lead to disproportionate burden for small and medium-sized IORPs and IORPs with many sponsors. However, an application of the HBS in pillar I as proposed in the current consultation paper does not seem to answer all the questions that have been raised and discussed in earlier studies and consultation papers. The GDV is of the opinion that for the different types of IORPs the capital requirements should sufficiently reflect the true risk profiles. Even if the specificities of IORPs are reflected appropriately in the HBS, it might be still difficult to derive suitable capital requirements for IORPs. For example, if the balancing item approach applies, the calculation of SCR does not add additional value. Furthermore, the balance sheet seems to be more appropriate as a transparency tool that discloses the qualitative differences to members and beneficiaries depending on whether the IORP itself provides the benefits or whether it is dependent on sponsor support from the undertakings. In any case, the exact risk exposure of the IORP should be at least defined in the dialogue between the IORP, its sponsors and the competent authorities. The GDV welcomes the fact that the provisions take into account the principle of proportionality. In particular, the GDV welcomes in principle the introduction of a balancing item approach. Particularly for small, medium-sized IORPs and IORPs with many employers it could be a useful simplification. However, the GDV believes that a broader definition of balancing item is appropriate. Since the holistic balance sheet does not solely reflect the risks borne by IORPs but rather considers the part of pension promise implemented through the IORP	

			from the point of view of members and beneficiaries, all parties that safeguard an IORP and its pension obligations should be considered. Therefore, the definition should not be restricted to sponsoring undertakings but also include all third parties that safeguard the pension promise, depending on their default rate and/or strength. Competent authorities should be empowered to decide upon the application of the balancing item in each case. The GDV fully supports the commitment by EIOPA to improve the general methodology. The GDV welcomes EIOPA's intention to undertake a second quantitative impact assessment, taking into account the feedback received from stakeholders. It is necessary to better understand and assess the consequences of the possible application of HBS and thoroughly investigate the above mentioned problems.	
38.	GE	General Comment	One of the main reasons cited behind the review of the Directive is a desire to encourage cross-border activity. However, we do not believe that introduction of a common approach to solvency would "potentially stimulate cross-border activity" in any practical sense	Noted.
39.	GE Pension Trustees Limited	General Comment	This submission is made by GE Pension Trustees Limited, the corporate Trustee body that is responsible for the management of the majority of the occupational pension scheme liabilities of the General Electric Company in the United Kingdom (UK). We firmly believe that whilst the introduction of the existing framework in 2005 (through the Pensions Act 2004 in the UK) has improved security for members and works well for members of the GE schemes, there is now a real risk that further changes or enhancement of solvency (funding) requirements by the EU will bring insecurity rather than security for members of pension funds.	Noted.

			In particular additional requirements which lead to increased costs or increased funding contributions may lead to the closure of DB pension funds and the introduction of less generous alternatives for members of DB pension funds which are still open to accrual (such as the GE pension schemes in the UK). In addition, we do not believe that the introduction of the holistic balance sheet (HBS) concept outlined in the consultation paper provides additional benefits to the managers of the IORP (such as Trustees in the UK) or to the members themselves.	
40.	GESAMTMETALL	General Comment	Gesamtmetall, the Federation of German Employers' Associations in the Metal and Electrical Engineering Industries, calls upon the European Commission and EIOPA to refrain from extending the requirements on solvency of IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardize not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this at the expense of the employees and the pensioners. The application of further solvency requirements to institutions for occupational pension provision via a "Solvency II-like" approach using the Holistic Balance Sheet (HBS) methodology is objectively unnecessary and counterproductive. It is objectively unnecessary because both the existing institutions for occupational pension provision in Germany and the corresponding	Noted.

			entitlements of the claimants are already extensively regulated and secured by national regulatory law and financial supervision. In addition to the employers' subsidiary liability, the Mutual Pension Insurance Association (Pensionssicherungsverein) has an obligation to assume liabilities in the event of an employer's insolvency. These structures have proved themselves successfully even during the recent financial crisis. Furthermore, the legal provisions regulating the insurance industry are not transferable to institutions for occupational pension provision because of a lack of comparability: the latter institutions do not offer financial services products and are therefore not in competition with other old-age pension products on the open market. The application of new own-funds requirements would furthermore be counterproductive, as it would run contrary to the need to expand occupational pension schemes as a supplement to public pensions. Further regulatory intentions of the European Commission and EIOPA would considerably increase the costs of occupational pension provision, costs that could only be financed by reducing the payments made to the beneficiaries or by increasing contributions by companies. We also believe that, given the diversity of pension arrangements across the European Union, it is inappropriate to search for a single approach at EU-level. In line with the subsidiarity principle, a revision of the supervisory regime in the direction of a Holistic Balance Sheet (HBS), would not be appropriate and would even be highly damaging. The prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now	

			stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer workplace pensions of the kind which would be affected. For these employers, they are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses to increase their level of investment. Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity in our sector and risks triggering changes in employer behavior as they anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. Consequently, and in summary, Gesamtmetall is convinced that further reform of the supervisory and funding arrangements runs a real risk of creating an illusory 'pension security' only, as employers will be compelled to reconsider their commitment to workplace pensions affected by this consultation in light of the significant, adverse, financial consequences which they may ultimately face. Also, the financial impact on many companies could result in them ceasing to be profitable, risking reduced investment in jobs, skills and Research and Development, and even closure. The overall impact will be one of reduced overall employer investment in workplace pensions. For all these reasons we ask EIOPA and the European Commission to refrain from further initiatives on Solvency of IORPs.	
42.	Heathrow Airport Limited	General Comment	About Heathrow Airport Limited Heathrow Airport is the UK's largest airports with approximately	Noted.

			500,000 flights annually. The airport is host to 84 airlines which serves 184 destinations in 80 countries. Passenger numbers arriving and departing are around 70 million annually. Heathrow directly employs approximately 7,000 people, but including our business partners from airlines, retailers and supply services, provides employment for approximately 76,000 individuals. This consultation is not the right priority for EIOPA Given that the EU Commission indicated in May 2013 that it did not intend to proceed with Pillar I funding requirements as part of the current review of the IORP directive, we are very disappointed that EIOPA is nevertheless continuing with work on the holistic balance sheet on its 'own initiative' without the EC's mandate. We do not believe that this is the right priority for EIOPA to be pursuing. EIOPA's focus should be on ensuring that citizens across the EU have access to adequate and sustainable pensions, not on devising a methodology that could impose substantial cost burdens on one particular type of pension scheme found in only some member states (namely defined benefit IORPs). We therefore believe that EIOPA should drop its work on the holistic balance sheet altogether. Given the increasing trend towards defined contribution pension provision, a much better focus would be on developing a framework for strong principles-based defined contribution governance standards across the EU. The UK has already been involved in developing its own governance regime, which could contribute to the development of best practice guidance across Europe.	

			Solvency funding would be damaging for pensions, sponsors and the economy Heathrow Airport is opposed to the idea of applying a regime based on Solvency II to IORPs (and to the use of the holistic balance sheet as a mechanism for applying such a regime). We believe that this will be damaging to the provision of pensions to employees, leading to the closure of defined benefits IORPs to future accrual and the provision of lower quality pensions in future. It would also discourage other countries from establishing defined benefit provision. We believe that this cuts directly against the EC's goal of ensuring adequate pension provision across the EU. The application of a solvency regime to pensions would also have very damaging consequences for employers sponsoring pension schemes, who could see increased funding deficits and higher contribution demands, which would leave them with lower assets to invest in growth and jobs. Furthermore, if European companies are compelled to divert a substantial amount of their capital into funding their pension schemes on a solvency basis, it is likely to mean that they will be unable to compete effectively with non-European companies. As well as the effect on individual sponsors, the introduction of a solvency regime could also have substantial impacts on the economy as a whole with pension schemes likely to reduce their holdings in equities in favour of debt investment. This and could lead to significant market distortions and runs counter to the EU's current focus on encouraging long-term market investment.	

			EIOPA should be aware that the impact of implementing its holistic balance sheet could go far beyond individual pension schemes. A full impact assessment would be needed before any steps could be taken on any of the options in the consultation paper to identify possible impacts on pension schemes and sponsoring employers, and also on wider long-term investment trends. Sponsor support cannot be valued as a single figure One of the aims of the consultation is to arrive at a methodology to put a single number on the support provided to an IORP by an employer. We believe this to be an essentially misguided aim. The support provided by an employer to a scheme varies depending on the individual scheme, the individual employer or employers, and on the situation of both the scheme and the employer(s). For example, the support provided in the event that the scheme is to be wound up is different from that being provided where the scheme is being run on an on-going basis with contributions continuing to come in. In the UK, the assessment of sponsor support forms a key part of funding negotiations. Trustees will have access to information of various kinds to enable them to assess that support, ranging from quantitative metrics to more qualitative assessments of the employer's future business prospects and commitment to the pension scheme. Any attempt to reduce this complex array of information to a single	

			number is bound to produce results that are spurious and misleading. Such a single figure would ignore, for example, subtleties such as negative pledges and dividend policies, which may well provide significant protection that funding will be available to a pension scheme in the long term without being captured at all by the single figure approach. Covenant assessment requires the exercise of expert judgement in specific circumstances, rather than blind reliance on a model to produce a single number. Further, the existence of a single figure for the commitment of an employer to their pension scheme would inevitably feed into the rating agencies' assessments of a company's strength. Whilst we accept that it is right that an employer's commitment to their pension scheme should form part of an assessment of a corporate's financial position, we believe that there is a risk that the number calculated under the holistic balance sheet may be misleading and lead to inappropriate reassessments of a company's financial strength, for example leading to a higher cost of capital. Alternatively, the single figure approach could lead to an undervaluing of the real risk that a pension scheme presents to the continued existence of its sponsoring employer. In our view, an approach under which sponsor support is assessed in qualitative terms will be both more useful from the point of view of the trustees of the pension scheme, but also from the perspective of rating agencies assessing the strength of the company. The valuation of sponsor support will be expensive	

			As noted above, trustees of IORPs already carry out often extensive work to assess the sponsor covenant. They are likely to continue to need to do so, even if a single figure approach is introduced by EIOPA (given that the single figure approach will not be able to replace the sophisticated assessments that currently take place). If some of the proposals in this consultation were adopted, IORPs would therefore face the additional expense of having to carry out a separate single figure valuation of the sponsor support to plug into the holistic balance sheet. Such calculations would be time-consuming and use resources that could be better applied in improving the funding position of the IORP rather than in paying the costs of advisers. The consultation contains some welcome options We believe that the holistic balance sheet would be unnecessary, expensive and probably damaging both to pension schemes and to the sponsors who provide them. We recognise, however, that EIOPA has gone some way to addressing these serious concerns by considering allowing a principles-based assessment of sponsor support and/or for sponsor support to be included in the holistic balance sheet simply as a balancing item, by proposing an option of allowing the holistic balance sheet to be used purely as a risk management tool, and by introducing the possibility of a transitional regime in the event of a holistic balance sheet being introduced. In the event that EIOPA continues with its plans for a holistic balance	

			sheet, we would urge EIOPA to develop these ideas further to make sure that the holistic balance sheet, if introduced, would not bring in deleterious consequences for pension schemes and the employers who sponsor them. The case for the holistic balance sheet has not been made However, we think that neither the European Commission nor EIOPA has still to make the case, either practically or intellectually, as to why the holistic balance sheet needs to be introduced. What are the fundamental concerns that the holistic balance sheet would be addressing? What would the consequences be of retaining the status quo? The UK pensions regime has been resilient during tough economic conditions In the UK, for example, the combination of a strong regulator, a practical funding regime that recognises the need of both pension schemes and their sponsoring employers, good trustee governance and the ultimate protection of the Pension Protection Fund had provided a durable and resilient framework even in the most extreme economic conditions. The holistic balance sheet could actually undermine and even conflict with strong existing requirements at member state level. EIOPA should therefore consider the benefits of dispensing with the holistic balance sheet altogether. It is inappropriate that retaining the	

			status quo is not even considered as one of the six examples in the last section of the consultation paper. Our response We have commented on a few of the specific questions asked by the consultation, but have not focused on the technical detail. Our silence on a particular question should not be taken as assent, nor should the fact of us responding to this consultation at all be taken as us agreeing to the concept of the holistic balance sheet or to the placing of a single value on sponsor support.	
43.	Hoechst-Gruppe VVaG	General Comment	I. Introduction The presented paper on Further Work on Solvency of IORPS summarizes the discussion results of the last years around a "Solvency II-like" approach for IORPs using the Holistic Balance Sheet (HBS) methodology. On the one hand the consultation paper outlines different options for the various elements of the HBS. On the other hand, options describe how quantitative results could be used for regulatory purposes depending on where (Pillar 1 or Pillar 2) and how they are applied. It must be noted first and foremost that EIOPA is not presenting any alternatives to the general HBS approach. This implies that EIOPA thinks that this methodology will be required in one or another form. This contradicts the recent version of the IORP II directive proposal which does not justify any quantitative requirements based on the	Noted.

			HBS approach, regardless for which Pillar. It also appears to run counter to how EIOPA allegedly is presenting itself as being open to various alternatives and as not prejudging which options should be applied and whether a very harmonized regulation shall be implemented across Europe or whether there are Member State options to adopt the rules to the national requirements. The fact that EIOPA recognizes that this work is done at its own initiative does not solve this issue. II. No additional requirements which do not make occupational pensions more secure but add extra cost Every move towards a system that places more unnecessary burdens on IORPs and their sponsoring undertakings must take into account that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this important social benefit. This is even more the case in Member States like Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. As a result, higher costs either on the employer's or on the employee's side are likely to lead to a decrease in benefit level and coverage of occupational pension plans – without making them any more secure than they are today. From our perspective it is right that the experience of the financial crisis led to an analysis of systemic risk in the financial markets. In the	

			area of banking, this has led to additional regulation: because banks lend money to each other, the default of one bank makes the default of other banks more likely. These links between banks have been addressed by regulation. However, from our perspective it is not right to now apply similar regulation to insurance companies and IORPs. Neither insurance companies nor IORPs lend money to each other; one institution going bankrupt does not increase the likelihood of other institutions going bankrupt as well. Beyond this, IORPs (in contrast to insurance companies) benefit from a guarantee given by the sponsoring employer, and are governed by social and labour law. Therefore, it would neither increase financial stability nor the security of occupational pensions to introduce Solvency-II-style capital requirements – it would only add additional costs. We strongly oppose the introduction of any new requirements which do not make occupational pensions more secure but add extra costs, because these additional costs would make it less attractive for employers to offer occupational pensions, as already stated above. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if sponsors invest in their own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP when an (“artificial” short term) underfunding situation occurs (p. 71 EIOPA Consultation Paper). We overall would like to emphasise that our response, which discusses the specific points as raised by EIOPA, does not mean that we support the overall concept – we do not. III. Why the HBS is not a suitable regulatory instrument	

			We recognize that EIOPA has tried to address our previous criticism that the Solvency-II-approach does not do justice to the special characteristics of IORPs. The current Consultation Paper undertakes an attempt to improve on the shortcomings of the HBS approach in particular on the valuation of sponsor support by delivering further valuation approaches (i.e. the balancing item approach) and it tackles the urgent question of how the HBS approach is going to be used as a regulatory instrument. We welcome that EIOPA for the first time discusses the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide rules for SCR, tiering of assets, recovery period) although we think that should have been answered on a much earlier stage before all the in-depth-analysis of the HBS elements. No recognition of social and labour law Despite these improvements, we not only oppose the general idea of introducing new solvency requirements for IORPs, but also the HBS approach as proposed. It must be noted that the HBS approach does not adequately account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Discussing the EU's existing supervisory architecture (European	

			system of financial supervisors; ESFS), occupational pensions were only mentioned in the De-Larosière-Report from 2009 in relation to IAS 19; in a speech by Jacques De Larosière at the Public Hearing on Financial Supervision in the EU they were not even mentioned (Public hearing on Financial Supervision in the EU, Brussels, 24 May 2013). On this background it is presumptuous that the EIOPA Consultation suggests that Member States should adjust their national social and labour law so that it would be compatible with potentially new prudential regulation: "If EU prudential requirements were amended, Member States may need to adjust their social and labour law in order to ensure that their overall framework continues to reflect the previously agreed objectives." (p. 114 EIOPA Consultation Paper). We strongly oppose the idea that prudential law should trump social and labour law. The "balancing item approach" and the valuation of sponsor support We in general welcome the introduction of the "balancing item approach" (BIA), with respect to sponsor support in combination with a model which is similarly simple as the PwC model ("M" approach) and which would not require calculating the HBS (for the "M" approach this is needed), but rather rely on a simpler measure (e.g. technical provisions). But we strongly suggest – if the HBS should be introduced at all – that in cases of a strong sponsor, a multi-employer-scheme (MES) or existence of other security mechanism) as balancing items, that there should be no requirement to explicitly set up an HBS. In particular, these factors not should lead to any Solvency II-style capital requirements. The rationale is that in the cases of the application of the BIA the	

			strength of the security mechanisms / sponsor support is actually proven and thus market consistent valuation (incl. using the risk free interest rates) is not needed anymore because the strength of the sponsor avoids the necessity of a transfer of the IORP's assets and liabilities and further concrete quantifications seem to be superfluous. Especially in the case of MES the BIA captures the notion that a large number of sponsors in the end is in charge of the settlement of pension claims (= HBS) and also serves as cushion for adverse developments (=SCR). This illustrates the flexibility of the sponsor support of MES IORPs and delivers a flexible protection of pension claims acting in solidarity. In those cases where the HBS approach includes existing security mechanisms such as sponsor support, pension protection schemes, benefit reductions and where the HBS is used to trigger regulatory actions (recovery plans) the question remains: which regulatory options are available within a recovery plan at all in case of a shortfall within the HBS since all security mechanisms are already included? Market consistent valuation: Not appropriate and not necessary for IORPs We generally consider the so-called market-consistent approach inadequate for liabilities with such long durations. Any valuation and risk management that is based solely on a market value approach sets the wrong incentives for those running the institution. Such a valuation would be extremely volatile, pro-cyclical, and based on a cut-off date; it would use the modelled view of an external investor and would therefore not take into account the specifics of most IORPs. The one-year-perspective and a consequent mark-to-market valuation	

			(of liabilities) would lead to a completely wrong assessment of the situation. Mark-to-market sets short-term and therefore undesirable incentives for the management. This type of valuation could harm solid and long-term planning, as well as risk analyses and related calculations. It would therefore not contribute to more security for the beneficiaries. And in addition a transfer of liabilities to other market actors (see i.e. EIOPA 5.83) is – unlike in the insurance sector – not relevant because of the existing security mechanisms of IORPs which are actually to be assessed by the HBS. In particular, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, for occupational pensions labour law does not allow early cancellations. By maintaining the Solvency II structure, the HBS itself is not an appropriate approach for IORPs. The fact that security mechanisms of occupational pensions are considered at a later stage may not solve this general problem. Sustainability and transparency We understand that for EIOPA these two goals are essential and related to each other. We share these principles, but the instruments of the HBS approach are not appropriate to reach them. Regarding sustainability, we do not feel that the push towards DC which the HBS would bring about (see below) would make the overall pension system more sustainable – to the contrary. Transferring the risks to those who are least able to bear them, i.e. individuals, is socially not desirable.	

			We generally support transparency, but we do not think that the HBS approach is the right way to support it. Because of the increasing number of valuation methods and options with respect to recognised cash flows used within the HBS, the HBS gets more and more complex and does not lead to more transparent and comparable results (see 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given the modelling approach). Transparency in the second pillar is not the same as in the third pillar – or, in other words, as for financial products. We are aware of the trend towards DC, however, we would like to point out that in many EU Member States there is a large legacy of DB schemes which will pay out pensions over decades to come. In addition, there isn't only pure DC, but also hybrid schemes where the risk is shared between the stakeholders. In Germany for example, there are currently no pure DC schemes at all, the employer is always liable to ensure that the pension promise made is kept. This means the employer has a strong interest that the IORP is efficient and sustainable. With these mechanisms, the need for detailed information for the beneficiaries is reduced. Transparency requirements therefore need to be tailored to fit those schemes – they cannot just be copied from financial products. In addition, we would also like to point out that transparency needs to be treated carefully in this context. Sponsor support is an important security mechanism for IORPs. However, publishing detailed information around a specific situation might impact on the rating of the sponsoring employer. Second, if the members and beneficiaries e.g. do not have any choices regarding the investment strategy, there	

			is little benefit in informing them about the funding ratio and potential measures taken to address underfunding. When occupational pensions are provided by the employer to the employee, there is no need to publish certain information like detailed cost information. The employer is not competing with pension providers to win the most customers, but rather providing a social service to their employees, which in Germany is governed by labour and social law. It is important to disclose certain information to the national supervisor (in Germany BaFin), but not to the public. The HBS dilemma: if it is sound, it isn't practical; and if it is workable, its results are questionable While without doubt EIOPA has invested a lot of time in the HBS, we do not think that the presented concept is to any degree satisfactory: the parts which are intellectually coherent are impossible for IORPs to comply with given their limited resources (stochastic modelling, also some of the simplifications); where simplifications have been introduced, the appropriateness of those simplified heuristics and the chosen parameters is doubtful and thus the intended goal of comparability of results is highly questionable (see again 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given different modelling approach). From a practical perspective more simplifications would be better – but even as it stands at the moment it is not clear what the derived figures would show and what they could be used for. This illustrates the dilemma of the HBS: to get the HBS workable simplifications are needed (as apposed to a precise valuation of IORP's security mechanisms), but that would challenge the whole approach. Thus even if we were supportive of the introduction of the HBS, this would not be a suitable approach.	

			While we recognise that EIOPA has tried to incorporate some of the specific features of occupational pensions into the HBS, the approach remains completely inadequate as an instrument for the supervision of IORPs. IV. A supervisory regime sui generis for IORPs We still agree with the general aim of the Commission in the Call for Advice of April 2011, according to which a risk-based supervisory system for IORPs should be developed – but in our opinion the IORP Directive (respective IORP II) should be the starting point. Thus we continue to be of the opinion that the supervision of IORPs requires a regulatory regime sui generis that truly accounts for the differences of IORPs and insurance companies. Due to the differences of pension schemes all over the EU (see below), we suggest to respect those differences among occupational pension systems in the different Member States when amending the regulatory framework. This approach is justified due to the basic differences between IORPs and insurance undertakings, as EIOPA itself has identified several times (in particular in the second consultation document on the review of the IORP Directive, EIOPA-CP-11/006, see 9.3.6 a – h as well as in other EIOPA documents and speeches). We have reservations that in spite of this commitment, the current EIOPA paper on further work on solvency of IORPs as well as EIOPA's discussion paper on sponsor support of 2013, the technical specifications for the IORP QIS from 2012 as well as EIOPA's previous consultations on the IORP review are built on the Solvency II principles and structure.	

			V. EIOPA needs to recognise that occupational pensions are diverse across Europe We support the concept that Member States should be given sufficient leeway (e.g. regarding the recovery period and sponsor support as balancing item). In lines with the proposals in these areas, we support a strengthening of the subsidiarity principle by allowing for options which give the Member States the responsibility for defining regulatory details which are in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. EU legislation should define clear borders between these different fields of law and the supervisory regulation should always be subordinated. In the German situation pensions are safeguarded already by labour, co-determination and social law. EIOPA should always bear in mind that in the diverse area of occupational pensions in Europe, it is beneficial to develop minimum requirements rather than aiming for full harmonisation. The HBS should not be used to lead to EU-wide harmonization of calculation of technical provisions (Level A or B technical provisions) especially for the reason of putative comparability for an internal market of pensions if this leads to a higher cost burden for employees and employers and detrimental effects in consequence. As EIOPA clearly analyses the result would be negative effects for occupational pensions, sponsors and economic growth (i.e. 5.86, 5.177, 5.179 and 5.188).	

			We would also like to point out that Level B as is currently defined does not fit all pension schemes across Europe either. It must be noted that for Germany in almost all cases it would be a discount rate fixed by the national competent authority. In this context we welcome that EIOPA recommends using the principle of proportionality and the introduction of the balancing item approach: IORPs with certain characteristics would not have to make detailed calculations to determine whether the HBS balances (p. 43). But we think that in these cases the strong sponsor should make up for explicit exemptions that should release from explicitly setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements. VI. The future of occupational pensions in Europe On a positive note, we welcome the recommendation to consider grandfathering, which would mean that the new prudential requirements would not apply to existing IORPs. However, we still see a number of issues for the future of occupational pensions if an HBS-style approach to solvency was introduced: ☐ With state pensions being scaled back in many EU Member States, we envisage a strong second pillar for the future, which supports individuals in closing the gap the reforms of the first pillar have presented them with. Policy-makers and supervisors both at the national and the EU level should do everything possible to ensure that the framework occupational pensions operate in is adequate to	

			support this goal. However, we feel that the long-term implications from implementing an HBS-style approach would be different: to us it looks like EIOPA wants to support the trend towards DC, pushing those employers who are still offering DB schemes towards DC as well. Taking into account the described developments in state pensions, from a social policy perspective this is undesirable. ☐ In addition, we think that the current proposals would foster consolidation in the pension sector. While there are certain advantages of larger schemes, e.g. economies of scale, we would like to warn that it is not desirable to grow schemes so big that their failure would cause a major crisis. We have seen the problems with institutions which are too big to fail – even though IORPs are fundamentally different form banks, they also do not benefit from a system with very few very large institutions. ☐ The consultation paper does not take into account any implications the HBS proposals and the supervisory response will have on what employers offer and how it affects coverage. To us it looks like EIOPA is assuming an occupational pension system where membership is mandatory. In many EU Member States this is not the case, and with further unnecessary burdens being imposed on employers offering occupational pensions, provision in those Member States is likely to go down. ☐ We doubt that the current suggestions will strengthen long-term investment or cross-border activity. The causalities presented in the paper are spurious.	

			Finally and importantly, we do not envisage a future where the main concern of IORPs is how to comply with European legislation. Legislation should be designed in a way which allows IORPs to pursue their main objective: providing their members with a good value pension, so that poverty in old age is avoided and a large number of people can maintain a similar standard of living they used to have while working.	
44.	IFoA	General Comment	The Institute and Faculty of Actuaries ("IFoA") welcomes the opportunity to comment on EIOPA's "Further Work on Solvency of IORPs". We welcome the discussion of possible supervisory approaches in the consultation document. In our previous responses to earlier EIOPA consultations, we have emphasised the value of ensuring that each component of the Holistic Balance Sheet (HBS) is calculated based on its purpose. We believe that the critical nature of the supervisory responses to the HBS should be a determining factor in the calculation of that component and we are encouraged by EIOPA's treatment of them. However, we would suggest that uncertainty remains as to whether the HBS will form a common basis for all Member States (MS) in determining the capital requirement for retirement benefits, or, if it is intended to be a risk management tool that each MS should adopt in the way most suitable to its own circumstances. The parameters of each model will be determined by their intended purpose (of which the two outlined above are significantly different). We would welcome confirmation of the intended purpose of EIOPA in its response to this	Noted.

			consultation The IFoA has a number of concerns about the approaches to sponsor support valuations discussed in the consultation document. Our primary concern is that, contrary to the "level playing field" objective, the effect of these approaches on the sponsors of UK IORPs could be more onerous than the Solvency II capital requirements for the same expected cashflows, when underwritten by an insurance company. We would urge EIOPA to conduct some case studies to examine this issue more fully. More generally, we have a concern that EIOPA's analysis takes too little account of the difference between insurance contracts, where the interests of the contracting parties are relatively easily identified; and retirement benefit arrangements, where the interests and interaction of the social partners are arguably more complex. Moreover, the legal framework for IORPs varies significantly between MS, so it will be difficult to find definitions that work across the EU. Even where such definitions could be possible, the necessary complexity would require substantial legal input to implement them. This is likely to have profound implications for the cost-effectiveness of the proposals and may risk stifling innovation. As a consequence of this variation in legal frameworks – largely as a result oflabour and social law – we would argue that there is strong case for ensuring that solvency requirements, in particular, should be delegated to MS as far as possible. We would also encourage EIOPA to investigate the stability of the proposed stochastic models (and the simplifications that flow from them) to small changes in their structures and to small changes to the	

			data used to calibrate them. The basis for our suggestion is that a powerful and flexible model, that captures all the nuances of sponsor support, may not be sufficiently stable for its intended purpose. There would be a number of challenges to calibrating such models reliably; for example, in terms of the tails of the distributions that are of most interest for this purpose and the subsequent implications for the volume of data required. The IFoA would encourage EIOPA to further develop the Level B measure. We welcome the fact that EIOPA recognises the need for further quantitative impact assessments and we hope that this omission would be addressed in the next QIS. The IFoA would welcome the opportunity to work closely with EIOPA on the specification of such a QIS.	
45.	IVS	General Comment	Opinions expressed are based on our understanding of the issues as presented. Since some of the issues are described at a high level, we have assumed a reasonable “fleshing out of details” and have thus attempted to answer at a high level too. We expect, however, that in many instances the devil will be in the detail. We appreciate that the consultation has apparently been conducted in a much more circumspect and diligent way than the first QIS. But it would be irresponsible to test it in the market in the form of a QIS when a number of important issues concerning the HBS have not even been addressed conceptually and from the point of view of practical application: for example (not an exhaustive list) (i) the very concept is still fundamentally under consideration (witness the 6 very different models being presented for comment) (ii) it should be clearly stated what the HBS is not: it is not a balance sheet in the sense of a statement of financial position (since it	Noted.

			contains contingent liabilities and doesn't necessarily always balance); neither may it be holistic (since 4 out of 5 of the quantitative models exclude PPS and/or non-legally enforceable sponsor support). Rather than a balance sheet for the IORP, we understand that the HBS is intended as a holistic view of the IORP from a member's / beneficiary's point of view. If so, we believe that this principle should be expressly stated in EIOPA's documentation in order to avoid misunderstandings. Following on from this logic, the label « HBS » is then a misnomer and should be amended to « holistic prudential framework (HPF) » on condition that the adjective "holistic" is justifiable. (iii) most importantly, the question about the suitability of the HBS/HPF can seriously only be answered once all significant elements of the HBS/HPF have been thought through – from what we can see this is effectively lacking at present (iv) a number of elements of the HBS/HPF are yet to be explored to an extent that a robust model exists (e.g. risk margin, for which we see little basis if one considers the specific characteristics of most IORPs) (v) the debate as to whether to include TPs on the basis of level A or level B assumptions has not really been robustly held Since we believe that the concept of the HBS/HPF for IORPs has not been fully consulted on, any choice for one alternative would thus very probably be incomplete and misleading. Apart from using names for concepts that are unnecessarily misleading (see our comment on the use of "holistic balance sheet" above), there is another area where we believe a misnomer should be corrected: "Contract Boundaries" (see below).	

			Even though we appreciate the clear signs of improved diligence and circumspection in the preparation of the consultation, we are concerned that the process that the Commission and EIOPA are following with regard to IORPs could turn out to be irresponsible. In particular, the significant economic repercussions seem not to be considered at all by the Commission or EIOPA. As a result we are worried that the negative repercussions may have to be borne by the currently younger generation, because overly conservative provisions and unreasonably costly regulation will simply turn well-intentioned employers away from engaging in this important component of retirement provision. EIOPA must surely be aware of the repercussions of its policies in this area.	
46.	Jane Marshall Consulting	General Comment	About JMC JMC is a business consultancy with a particular focus on and experience of corporate pension provision of all kinds in the UK and internationally. We believe that pension arrangements should be operated transparently, that their governance should be robust and that regulation should deliver protection for members within a framework that enables and encourages the companies and bodies which sponsor those arrangements. We believe in the importance of a successful business sector, which is able both to contribute to the growth that Europe needs and to help provide good retirement provision. We note that many EU member states have very few, if any, IORPs.	Noted.

			JMC's views on current consultation We support the objectives identified by EIOPA as fundamental to any regulatory framework:enhanced sustainability,strong governance and full transparency. Unfortunately the consultation scope and the assumptions underlying it (which relate to the extension of an EU regulatory framework to solvency and the adoption and use of the holistic balance sheet) while well presented and thorough, are most unlikely to help achieve these objectives if adopted by the Commission. Rather,they are likely to hinder the continuation and inhibit the growth of employer sponsored pension provision within the EU,whether nationally or cross border, without materially improving member security. At the same time they will create material unnecessary business costs ,and potentially impede corporate business plans and impact investment markets and available investment capital.They do not appear to facilitate the Commission's own objective of smart and sustainable growth. There is no competition between IORPS and insurers.IORPS are sponsored by employers and are not open to general consumers.The possibility of regulatory arbitrage between financial sectors is a concern that appears to have been overstated:it is difficult to imagine in practice. Single market considerations cannot therefore be considered as justification for flawed regulation.	

			The significant numbers of certain kinds of IORPs in very few member states means that sponsoring businesses located in those states will be disadvantaged in a way that distorts rather than enhances the single market. Provided national law and regulation is robust and risk based, there is no need for the suggested intervention at EU level and no point in harmonization for harmonisation's sake.	
48.	Lane Clark & Peacock LLP	General Comment	It seems clear from the work that EIOPA has completed to date in relation to the holistic balance sheet that, while it may be an attractive concept intellectually, implementing it in a useful form presents very significant practical difficulties. Reasons for this include the following. IORPs are very heterogenous in their benefit structures, legal status, stakeholders and forms of financial support. As the current consultation shows, designing a framework that can capture all the different aspects of IORPS across all EU States is extremely challenging. In practice the decisons made will inevitably involve a compromise and be more or less appropriate for different IORPs. The level playing field that the holistic balance appears to offer is therefore illusionary. Some of the elements of the holistic balance sheet are very difficult (and costly) to value, and different approaches can give very different	Noted.

			outcomes. For example, the discussion of different approaches to valuing sponsor support in the current consultation starkly demonstrates that a very wide range of potential valuations can be justified. Even within an agreed framework, the assumptions used for the calculations will have a material impact on the results. Risk for members of IORPS largely relates to potential outcomes under particular scenarios eg sponsor insolvency. The holistic balance sheet effectively averages over all outcomes, and so obscures those particular outcomes, possibly leading to a false sense of security, and potentially introducing systemic risk that doesn't currently exist. Taking the above together, any holistic balance sheet will ultimately be a subjective and arbitrary construct, which may in fact obscure some key elements of the overall position. Putting this at the heart of the regulatory framework in our view has the potential to increase rather than reduce risk. Our strong view is therefore that in practice use of the holistic balance sheet will incur excessive costs,. and result in outputs that are unreliable as a basis for decision making. We therefore find it very disappointing that the current consultation is based on an assumption that the holistic balance sheet will be at the heart of any future framework. For the reasons set out above, we do not believe that the holistic balance sheet can be made fit for this	

			purpose. Given previous feedback, we are very disappointed that EIOPA has positioned the consultation in such as way as to preclude consideration or discussion of alternative ways forward. We very much hope that opportunities to suggest and comment on alternative approaches will be provided in future.	
49.	Lincoln Pensions Limited	General Comment	Lincoln Pensions Limited is the largest leading independent provider of employer covenant advice to sponsors and trustees of pension schemes in the UK. Our clients are responsible for more than £100bn of assets in aggregate. We advise on all aspects of the employer covenant, including assessments, monitoring and advice on corporate transactions. Lincoln Pensions is a division within the global firm, Lincoln International LP. We welcome the direction of travel in the consultation, with a move to full implementation of requirements set and supervised at EU Member level. However, we believe that implementation should follow a 3-stage process, as outlined below (at question 36). We also encourage EIOPA to consider the impact of any new regime in conjunction with proposed changes in International Accounting Standards reporting, which could result in significant additional stress on sponsors if not correctly coordinated. As EIOPA's plans develop, we hope that EIOPA will reduce their reliance on one or two third parties and will either develop their own model or undertake specific consultation on the appropriate model to be used in determining sponsor support.	Noted.
51.	NAPF	General	The NAPF	Partially agreed.

		Comment	The National Association of Pension Funds is the voice of workplace pensions in the UK. We speak for over 1,300 pension schemes that provide pensions for over 17 million people and have more than €1.1 trillion of assets. We also have 400 members from businesses supporting the pensions sector. We aim to help everyone get more out of their retirement savings. To do this we spread best practice among our members, challenge regulation where it adds more cost than benefit and promote policies that add value for savers. The NAPF is a member of PensionsEurope, which is currently chaired by the NAPF's Chief Executive, Joanne Segars. The NAPF's approach to this consultation The NAPF's shares EIOPA's ambitions as outlined in this consultation paper – objective and transparent assessment of the financial security of IORPs and the sound management of risks. The NAPF agrees that these should be achieved in a manner that recognises the specificities of pension schemes. The NAPF does not, however, support the Holistic Balance Sheet as the means of achieving these ambitions – for the following reasons: - A robust system of risk management and protection for scheme members' benefits is already in place in the UK, and has been tried and tested in recent years by the stresses of a deep recession. The	EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			combination of sponsor support, back-up from the Pension Protection Fund and oversight (and, when necessary, enforcement) by the Pensions Regulator has proved highly effective. - EIOPA's own Quantitative Impact Study demonstrated that the original Holistic Balance Sheet proposal would (on the benchmark scenario) have increased the deficits of UK defined benefit schemes by €176 billion (c.£150 billion) even after allowance had been made for the additional support provided by sponsors and the Pension Protection Fund. This would have overstated the extent of DB deficits in the UK, principally through the use of an unnecessarily exacting discount rate regime and the inclusion of a solvency capital requirement. This would be highly damaging to the sustainability of DB schemes and would very likely force the closure of the remaining 14 per cent of schemes still open to new members and the complete closure of many of the 50 per cent still open to further accrual by existing members. - The NAPF is also concerned that the HBS proposal is set against a very diverse set of 28 different national pension systems. Although the present consultation goes much further than previous proposals in terms of allowing flexible implementation by national supervisors, this important (and welcome) change undermines the purpose of the whole project, which was originally intended to allow greater comparability of pension schemes across Europe through a more harmonised regulatory system. If pensions regulation is to be determined at national level (as the NAPF thinks it should – and it is a Member State competence), then there can be no justification for an EU-wide Holistic Balance Sheet system.	

			- The market already takes account of pension scheme deficits through the work of rating agencies, which include assessments of pension scheme deficits, calculated on a technical provisions basis, when rating corporate sponsors. It is not clear how the Holistic Balance Sheet would add extra value in addition to this existing activity. - The European Central Bank has warned that a HBS-based regulatory regime could undermine investment in growth assets and push more investment towards low-risk bonds . This is a significant critique, directly relevant to Europe's economic future, and the NAPF urges EIOPA to take careful note of it. - Compiling the HBS would be a significant extra cost for IORPs, and this should be fully explored in the forthcoming Quantitative Impact Study. The NAPF calls on EIOPA to demonstrate more clearly the value to members and sponsors that the Holistic Balance Sheet would add. The NAPF notes that the one-off compliance and implementation costs for the UK's insurance industry arising from Solvency II have been estimated at £1.8 billion, over half of which was incurred on business and technical resources. It seems reasonable to assume that the one-off costs for UK pension schemes arising from the Holistic Balance Sheet would at least run into some £100s of billions. The NAPF notes that the consultation makes it clear that this work is being done on EIOPA's own initiative, with no mandate for it from the European Commission. The NAPF's view is that there is no clear justification for this project and it would be better if EIOPA were not	

			undertaking it at all, particularly as the European Commission is taking forward a separate package of measures, in the form of the revised IORP Directive, to strengthen pension scheme governance, transparency and communications. These comments notwithstanding, the NAPF welcomes the wider range of options and new flexibilities provided in this consultation. The NAPF recognises that EIOPA has been willing to engage with stakeholders and has taken note of many of the concerns raised in previous consultation rounds. Key issues in this consultation Regarding the specific issues raised in this consultation, the NAPF's position can be summarised as follows: - Sponsor support. It would be a mistake to try to put a single numerical value on sponsor support, as this is a complex concept that requires a rounded assessment to ensure trustees fully understand the extent to which they can rely on the sponsor's backing for the scheme and the risks associated with it. For this reason, the proposal to use sponsor support as a 'balancing item', as proposed in para 4.112, is a welcome improvement on previous versions of the proposal. - Supervisory responses. If EIOPA were to persuade the European Commission to press ahead with the Holistic Balance Sheet (contrary to the advice of the NAPF and many other stakeholders, including PensionEurope), then the best option would be use as a risk management tool.	

			EIOPA should note, however, that the proposed new IORP Directive, which is currently in co-decision, includes a new Risk Evaluation for Pensions report which has a similar purpose to the HBS – the provision of more transparency over risks. There is no need for both. In fact, the NAPF's view is that the Risk Evaluation exercise, which is purely qualitative, is likely to be the more useful of the two innovations. - Transition period. The paper posits the possibility of a 'very long' transition. The NAPF would propose at least 10 years between the entry into force of legislation and practical implementation as a funding regime. - Future accruals only. The NAPF would also support the further mitigation – also discussed in the consultation paper – of applying the HBS to future accruals only. The proportion of UK defined benefit schemes open to future accrual has declined rapidly , and can be expected to decline further. So a 'future accruals only' approach would leave out of scope those schemes that are not building up additional risks and which were not designed with the HBS in mind. This approach would, of course, reduce the effectiveness of the HBS as a means of protecting the full range of members' benefits and would, therefore, call into question the value of the whole exercise, but – as explained in this response – the NAPF is confident that members' benefits in the UK already enjoy robust protection. An 'Holistic Assessment'	

			The NAPF proposes that the 'Holistic Balance Sheet' should, in fact, be an 'Holistic Assessment' along the lines of the Risk Evaluation for Pensions, as this would better reflect the way in which we see this new system being used if the European Commision were to take it forward - as a tool for stronger governance and transparency, rather than as the basis of a new funding regime. The precise structure for this Assessment should be set at national level.	
53.	Nematrian	General Comment	We have had the opportunity to contribute to responses that other organisations are making to this Consultation Paper. We have therefore limited our comments to a narrow subset of questions relating to whether and how the Holistic Balance Sheet should "balance". We believe that decisions of the sort discussed in the Consultation Paper are helped if they are informed by a clear conceptual framework. We believe that the framework set out in Kemp (2014) "Capital Adequacy: a conceptual framework" offers such a framework. It recommends that the problem of how much capital or access to other security mechanisms an organisation needs if it is to be deemed 'solvent' should ideally focus on the notional yield spread (versus the risk-free rate) that would or should apply to the organisation's liabilities were they to be traded freely in the market place. More practically it offers this concept as a benchmark which can be used to assess the solvency framework actually in place (or any alternative under consideration). The framework is conceptually applicable to a wide range of financial organisations including different types of IORP (and to insurers). Insights that such a conceptual framework offers in areas discussed in the Consultation Paper include:	Noted.

			☐ Access to sponsor support, pension protection schemes and building up assets within an IORP offer additional protection to beneficiaries and should ideally be included in the HBS. Each of these security mechanisms reduce the yeld spread that the IORP beneficiaries might notionally expect to suffer if they hypothetically transferred their pension entitlements to others in the open market. Moreover, their “value” in the HBS (at least from the perspective of the beneficiary) should ideally link to the extent of the resulting reduction in this yield spread (or more practically should involve some approach that approximates the same broad outcome). In economic terms, a pension promise has bond-like characteristics and the credit-riskiness of a bond can be assessed by the credit spread to which it is subject. ☐ The mathematics of yield spreads does not work in exactly the same way as the mathematics of balance sheets. In particular, the relationship is non-linear. For example, if an IORP has assets of 10 and liabilities of 100 payable in 10 years time then the first 100 extra added to the assets is likely to improve the security of the liabilities (in terms of the fall in the yield spread applicable to the liabilities) much more than the next 100 or the 100 after that. ☐ The HBS should therefore somehow seek to bring all of the security mechanisms together to form a holistic assessment of the security / robustness of the pension promise, rather than value each mechanism separately and assume that these separate values can simply be added together as in an accounting balance sheet.	
55.	Otto Group	General Comment	The Otto Group calls upon the European Commission and EIOPA to refrain from increasing the capital requirements for IORPs and especially from extending the requirements of Solvency II to IORPs. The HBS initiative is highly unlikely to foster more sustainable pension	Noted.

			saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardise not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this in the end to the detriment of beneficiaries. Therefore, the continued technical work by EIOPA on the HBS is not the right approach. In contrast to that, we repeat our suggestion of the last consultation in October 2013, that the European Commission should develop with support of EIOPA and in dialogue with the social partners a tailor-made European supervision regime for IORPs primarily oriented on minimum standards and the principle of subsidiarity. Although EIOPA thinks that the HBS methodology will be required in one or another form, the recent version of the IORP directive proposal actually does not justify any quantitative requirements based on the HBS approach. It must be noted that the HBS approach does not adequately fit to the social character of IORPs and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Every move towards a system that places more burdens on IORPs and their sponsoring undertakings contradicts the fact that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every	

			increase in the costs of providing occupational pensions decreases the employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. European employers cannot afford more costs due to the fact that their secondary wage costs are already at such a high level that any further increase will pose a threat to their international competitiveness. As a result, higher costs are likely to lead to a decrease in benefit level and coverage of occupational pension plans. We generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, but for occupational pensions labour law does not allow early cancellations. Instead of that we would prefer to see a strengthening of the subsidiarity principle by allowing options which give the Member States the responsibility for defining regulatory details in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In Germany pensions are safeguarded already by labour, co-determination and social law.	

			Additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if a sponsor invests in his own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP. Last but not least, the prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads them to revisit their commitment to continuing to offer workplace pensions of the kind which would be affected. These employers are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses for increasing their level of investment. Furthermore, this continuing uncertainty about the scale of revisions to the supervisory regime may have a significant detrimental impact upon wider economic activity in our sector and trigger changes in employers' behaviour as they could anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. In summary, the HBS approach is unsuitable for company pensions and should therefore be omitted. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise.	

57.	Pensioenfederatie	General Comment	Preliminary remarks We welcome the mapping exercise which demonstrates clearly the existing major differences between occupational pension provision in the Member States. These differences, in combination with the subsidiarity principle, are an important reason for our disagreement with the ambition to harmonize prudential rules for occupational pensions in Europe. We have strong concerns about adverse macro-economic effects of capital requirements as a consequence of the proposed Solvency Capital Requirement ("SCR") and the consequential diminishing incentive for employers to offer occupational pensions. We consider the Holistic Balance Sheet ('HBS") implementation to be costly. It will have a negative impact on the benefits for the IORP participants. In addition, we think that the HBS is too complex and costly for especially small and medium sized IORPs. We would like to underline that Pension Security needs to take into account the overall pension system of a country, including the balance between security, sustainability and adequacy. In this respect, we reiterate that pensions fall under the subsidiarity principle. Therefore, we would like to express our doubts as to whether the HBS approach can be consistent with the principles of subsidiarity and whether further harmonization of capital requirements is warranted. As a first step, the fundamental conceptual shortcomings of the HBS should be discussed and addressed. Afterwards, a decision needs to be taken on what purpose the HBS could serve, if any at all. This should be analysed by means of a sufficiently long consultation period and	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			sufficient time for EIOPA to draw conclusions from the responses provided by stakeholders. These conclusions may provide a better and more fruitful and feed into a more focused and informative Quanitative Impact Study (QIS), if deemed appropriate after all. We therefore invite EIOPA to start thinking about alternatives to the HBS, such as ALM studies and continuity analyses. These might serve the same goals as the HBS, with the advantage of lower complexity, lower costs, and less model uncertainty. In this general comment section, we would like to elaborateon a possible use of the HBS in the different parts of the IORP Directive: 1 Use for capital requirements (in pillar 1) The HBS is conceptually wrong as an instrument for capital requirements. It is undesirable to set up capital requirements for conditional benefits (let alone discretionary benefits), as this would make them (almost) unconditional in practice: once the initially calculated capital charge is met by means of a higher funding ratio, the capital charge will have grown as the value of the "conditional" benefit will be higher at a higher funding ratio. This leads to a spiral that will only stop once the maximum of the original conditional benefit will be granted, thus implicitly making it unconditional. Moreover, the capital requirements for conditional benefits would imply a double charge for risk-taking as both the resulting upward potential (higher indexation option value, i.e. an higher market-consistent value) and the downward risk (higher SCR) result in higher capital requirements. This constitutes a clear disincentive to take risks, which is likely to be harmful for participants (lower returns lead	

			to lower pensions and higher contributions) and runs against the objective of the European Commission to stimulate pension funds to finance long-term investments. Finally, as options (like conditional benefits, extra (conditional) sponsor support and benefit cuts) are less sensitive to volatility when they are far out of the money, risk-taking is more attractive for poor pension funds than for rich pension funds. 1.1. HBS inconsistent with use of an SCR The combination of the HBS and an SCR is conceptually wrong. The HBS shows the current market value of all conditional and unconditional pension promises (assuming there is a complete market, which is not the case), and the backing of these promises by current assets and conditional future payments (or benefit reductions). As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for an SCR on the HBS. This can be illustrated by means of a simple (complete) contract with a finite horizon offering the participants all revenues of the fund when it closes. If the stochastic simulations for the HBS are conducted over the full (finite) lifetime of the pension contract, the HBS will exactly balance. The current value of assets is then exactly balanced by the current value of 'unconditional' liabilities plus the option of profit-sharing (indexation option) minus the option of loss-sharing (benefit reductions). If the simulation horizon ends before the end of the contract, the conditional pension rights beyond the simulation horizon will not be valued, and consequently there will generally be a residue (positive or negative). This residue represents transfers to or from the generations that will still be in the fund beyond the simulation horizon. In the view of EIOPA, the pension fund only disposes of sufficient capital when this residue exceeds the SCR. In practice, this would then mean that, irrespective of the financial starting position of the fund, current members should always have to make transfers to future	

			generations. This cannot be regarded as beneficial for the current participants. In addition the longer the simulation horizon, the smaller the value of the residue will be (as the transfers are discounted), and therefore the less likely it will be that the HBS (including the SCR) will balance. 1.2. HB inconsistent with use of a recovery plan The HBS concept is inconsistent with a recovery plan. Setting up an HBS including all conditional and mixed benefits and all steering instruments requires the inclusion of all extra possible future funding like extra sponsor support and instruments like benefits cuts. If the HBS then does not balance, a further recovery plan will no be possible, since all steering instruments are already included in the HBS. The only conclusion that can be drawn is that the funding policy is insufficient to pay out the benefits as promised, thus that the pension deal seems to be unsustainable (at current market prices). 1.3. HBS cannot be used for supervisory response Another problem with the use of the HBS for capital requirements concerns the supervisory response. The HBS can only be calculated assuming a complete contract (including an agreement beforehand on the sharing of surpluses and deficits between the different stakeholders and all recovery mechanisms). This can be demonstrated as follows: Assume an IORP with an insufficient "holistic funding ratio" and a deficit of 100 million euros in order to comply with the SCR. In this situation, an additional payment by the sponsor of 100 million euros would be impossible, because this future security mechanism has already been valued in the HBS. Therefore, the outcome of the HBS is a take-it-or-leave-it deal. If the supervisor would not like the outcome, he might only suggest adjustments in the agreement or the recovery mechanisms, but the resulting HBS-outcome will be highly unpredictable as all HBS-items are interrelated. As a consequence, this approach is not suitable for prudential supervision.	

			1.4. HBS complex and hard to calculate In addition to these fundamental problems, the HBS also implies severe practical problems. Although the HBS, in theory, provides for an overview of all risks that have an impact on the 'solvency' of an IORP, the QIS1 (2012) has shown that, in practice, IORPs faced great difficulties in providing accurate numbers. We doubt whether these difficulties can be overcome at all. This is due to the unavailability of necessary data such as market prices for long horizons, standard deviations and correlations and missing markets (like the prices for wage inflation), as well as the complexity of the methods to be used (i.e. risk-neutral valuation in the absence of closed form calculation methods). The complexity of the methods to be used, makes the HBS very sensitive, possibly too sensitive, for model and parameter assumptions, which can result in changes in the HBS valuation by tens of percentage points depending on the assumptions used. The simplifications that are being investigated may solve the problem of complexity on the one hand, but will inevitably lead to overall inconsistencies on the other hand: any simplification will inevitably lead to the entire HBS to be no longer market consistent. And if simplification will lead to a different market value of one balance sheet item, this different valuation will also impact the valuation of all the other balance sheet items. 2 Use as an instrument for risk management (in pillar 2) The HBS might possibly be used as an instrument for risk management to obtain more insight into the relative risks of the balance sheet, but other less costly methods could better achieve this goal.	

			A well-drafted HBS can provide insights in the relative risks for different stakeholders. It is important to note however, that this does not provide insights into the main goals of an IORP, which are for example the capacity to pay the current benefits or the capacity to compensate for inflation. It only gives the current valuation of the future cash flows against market prices (assuming there is a market, which is not the case) of conditional and unconditional pension benefits and the way these promises are financed. It will therefore never be possible to use the HBS as the sole instrument for risk management, and other instruments will always be needed. Other instruments can for example consist of some sort of solvency projection (continuity analysis), ALM calculations and stress tests. If such instruments are available, we think that the use of the HBS will provide little additional added value , especially given the complexity of the information offered by the HBS. 3 Use as a tool for transparency (in pillar 3) We have always been in favour of providing good and comprehensive information to participants. However, according to us, the HBS cannot be used for transparency purposes. The information provided by the HBS is not the information that participants need or expect. In addition, it is far too complex for members. A participant wants to learn about the underlying risks of his or her pension benefits, for example the probability that benefits will be decreased or not adjusted to inflation, and what the implications of these events could be. The option values that are shown on the HBS do not provide this information, as they are not forward looking, but only provide for a relative ranking of risks. The fact that an indexation option (the market value of condional indexation) currently has a value of for example 5, does not convey any information about the probability that	

			the indexation of pensions will be granted. It only provides for the current market price of the option. As the participant cannot trade this option, the underlying value is hardly informative. Technically, the option values provide information about the value of the optionality in a risk neutral world, but this is not the (real) world in which participants live. Moreover, as market conditions may change quickly, the option value may be very volatile. We therefore conclude that use of the HBS as a tool for transparency in the relationship with participants is neither desirable nor feasible. If specific elements of the HBS will be implemented as balancing items, we want to stress that it is still important to properly convey all relevant information. As an example, if a specific form of sponsor support would be used as a balancing item but the coverage is not 100%, any remaining risk to the participants or the IORP should still be reflected elsewhere on the HBS. Last but not least, we would like to remind that our answers to the technical questions depend on the implementation of a prudential framework that is not clear as of yet.	
58.	Pension Protection Fund	General Comment	This document sets out the response to the consultation by the UK's Pension Protection Fund ("PPF"). The PPF is a statutory fund run by the Board of the Pension Protection Fund, a statutory corporation established under the provisions of the Pensions Act 2004. The PPF's main function is to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the PPF level of compensation. To help fund the PPF, compulsory annual levies are charged on all eligible schemes. While we support any measure to improve the level of funding in defined benefit pension schemes, we are concerned that some of the proposals made in the consultation could come at the cost of increased	Noted.

			insolvency rates. We appreciate that assessing whether funds are better invested in the scheme or in the employer's business is a delicate balancing act for scheme trustees and regulators. We believe the transitional and grandfathering arrangements would be essential in the UK for some of the proposed designs. For example requiring deficits to be made good within twelve months would send a high proportion of scheme sponsors insolvent. Since the PPF provides less than 100% of coverage for scheme benefits and many schemes are underfunded at present, this would be to the detriment of scheme members as well as having wider economic impacts. It is difficult to comment on the technical details concerning the Holistic Balance Sheet without knowing the purpose for which the balance sheet will be used. We believe that the purpose of the balance sheet needs to be clarified before any detailed work on the technical work could be usefully taken forward. If the Holistic Balance Sheet were used for funding or solvency purposes, then it would not be appropriate to place the PPF on a scheme's balance sheet. This is because the PPF is not a contingent asset of the scheme but rather a compensation fund for members whose pension schemes have failed. Scheme trustees should operate "blind" to the compensation we would pay following a scheme failure. If the Holistic Balance Sheet were used for reporting security of benefits to members, however, we can see an argument for including the PPF on the balance sheet. However, this should not come at the cost of increased complexity. The Experian Model we commissioned is mentioned as a possible method for calculating insolvency probabilities for employers for use in a larger model that assesses the value of sponsor support. However, we would warn against this as the model was built for the specific purpose of helping us distribute the PPF levy. It is likely that a different model would be needed for assessing the creditworthiness of	

			sponsors for a pension scheme solvency valuation. Many of the proposals in the consultation would be complicated to produce, and in a UK context the benefits would be outweighed by the costs for a great many, if not all, schemes. In the UK most defined benefit schemes are relatively small, with around 5,000 (circa 80 per cent) having fewer than 1,000 members and around 2,000 having fewer than 100 members. Any regulatory system should be designed with this in mind.	
59.	PensionsEurope	General Comment	About PensionsEurope PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes. PensionsEurope Members are large institutional investors representing the buy-side on the financial markets. PensionsEurope has 24 member associations in EU Member States and other European countries with significant – in size and relevance – workplace pension systems. PensionsEurope member organisations cover the workplace pensions of about 62 million European citizens. Through its Member Associations PensionsEurope represents more than € 3.5 trillion of assets managed for future pension payments. PensionsEurope has established a Central & Eastern European Countries Forum (CEEC Forum) to discuss issues common to pension systems in that region.	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk assessment and transparency.

			PensionsEurope has established a Multinational Advisory Group (MAG) which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing forthe expertise and opinions of multinationals. 1. Preliminary remarks First of all PensionsEurope welcomes the possibility to comment on such an important matter. We also welcome the mapping exercise published together with the consultation on solvency for IORPs which shows the major existing differences between and in the Member States with regards to occupational pension provision. PensionsEurope also commends EIOPA for responding to the concerns raised in previous rounds of consultations as well as during the Quantitative Impact Study (QIS). Indeed we welcome that EIOPA brought forward ideas such as the balancing item approach, the focus on principle-based approach (for example with regards to sponsor support valuation) as well as the consideration of a range of possible frameworks where the Holistic Balance Sheet (hereinafter HBS) could be used. We also welcome that EIOPA for the first time discusses the central question of the regulatory function of the HBS (trigger points, funding requirements and EU-wide SCR, tiering of assets, recovery period) although we think that it should have been answered on a much earlier stage before all the in-depth-analysis of the HBS elements. PensionsEurope highlights that it is sometimes difficult to provide	

			reliable answers to certain questions from a pure European perspective. It is especially true when different options are discussed. This shows the wide diversity of the occupational pension sector and the difficulties or even impossibility to harmonise it. That is why, if, against our recommendation, the HBS is introcued, we stress it should be possible to authorise several options in order to reflect the specificities of occupational pension systems in the various EU Member States. Last but not least, we would like to remind that our answers to the technical questions depend on the implementation of the prudential framework that is not clear as of yet. The position of PensionsEurope with regards to the HBS concept can be summarized as follows: 2. The HBS is not suitable as a regulatory instrument at EU level 2.1 The HBS is not an adequate instrument to cover the diversity of IORPs in Europe An objective and transparent assessment of the financial security of IORPs and the sound management of risks outlined in this consultation paper is an ambition PensionsEurope shares with EIOPA. However, we are of the opinion that the HBS is not the right way of achieving this, as it does not recognize the specificities of national pension schemes sufficiently. Pension security needs to take into account the overall pension system of a country, including the balance between security, sustainability and adequacy. We would like to reiterate in this respect that pensions fall under the subsidiarity principle and under national social and labour law. We have our doubts whether the HBS approach	

			can be consistent with the principles of subsidiarity and whether further harmonization is warranted. Although the present consultation goes much further than previous proposals in terms of allowing flexible implementation by national supervisors, this concession undermines the purpose of the whole project, which was originally intended to allow greater comparability of pension schemes across Europe. If pension regulation is to be determined at national level (and as mentioned, PensionsEurope is of the opinion that it should) then we question what the justification for an EU-wide HBS would be. The differences between the 28 national pension systems and the subsidiarity principle are an additional reason to be against harmonizing occupational pension provision. 2.2 The HBS dilemma: if it is sound, it isn't practical; and if it is workable, its results are questionable While without doubt EIOPA has invested a lot of time and efforts in the HBS, we do not think that the presented concept is to any degree satisfactory: the parts which are intellectually coherent are impossible for all IORPs to comply with given their limited resources (stochastic modelling that is not used by all IORPs, also some of the simplifications); where simplifications have been introduced, the appropriateness of those simplified heuristics and the chosen parameters is doubtful and thus the intended goal of comparability of results is highly questionable (see again 4.145 and EIOPA' s own analysis in section 4.5.6. stating huge differences between resulting values of sponsor support given different modelling approach). From a practical perspective more simplifications would be better – but even as it stands at the moment it is not clear what the derived figures	

			would show and what they could be used for. This illustrates the dilemma of the HBS: to get the HBS workable simplifications are needed (as opposed to a precise valuation of IORP's security mechanisms) that challenge the whole approach. Thus even if we were supportive of the introduction of the HBS, this would not be a suitable approach. 2.3 The HBS is very costly and it is difficult to interpret its results Additionally, we expect the HBS implementation to be very costly while we doubt the potential benefits will outweigh those costs. PensionsEurope regrets that EIOPA does not consider using less complex and less costly risk management instruments such as ALM studies, stress tests, continuity analysis etc. Costs will have a negative impact on the benefits for IORP members and beneficiaries. Moreover, we think that the HBS is a very complex method – therefore very difficult to interpret and use - especially for small and medium sized IORPs. 2.4 The HBS does not enough take into account the social aspect of IORPs Despite the improvements noticed above, we not only oppose the general idea of introducing new solvency requirements for IORPs, but also the HBS approach as proposed. It must be noted that the HBS approach does not adequately account for the social character of IORPs (as opposed to the mostly commercial character of insurance companies) and is therefore not appropriate. In other words, it neglects that the members of IORPs are protected by labour, social	

			and co-determination law. Discussing the EU's existing supervisory architecture with a European system of financial supervisors (ESFS), occupational pensions were only mentioned in the De-Larosière-Report from 2009 in relation to IAS 19; in a speech by Jacques De Larosière at the Public Hearing on Financial Supervision in the EU they were not even mentioned. Against this background it is presumptuous that the EIOPA Consultation suggests that Member States should adjust their national social and labour law so that it would be compatible with potential new prudential regulation: "If EU prudential requirements were amended, Member States may need to adjust their social and labour law in order to ensure that their overall framework continues to reflect the previously agreed objectives." (S. 114). We strongly oppose the idea that prudential law should trump social and labour law. 2.5 The HBS and the market consistent valuation We consider the market-based approach difficult for liabilities with such long durations. Any valuation and risk management that is based on a market value approach could set the wrong incentives for those running the institution. Calculating technical provisions on a market consistent basis including a risk free interest rate is not necessarily appropriate for IORPs. Such a valuation risks to be pro-cyclical, based on a cut-off date and would not take into account the specifics of most IORPs. This type of valuation could harm solid and long-term planning, as well as risk analysis and related calculations. It would therefore not necessarily contribute to more security for the beneficiaries. In addition a transfer of liabilities to other market actors (see i.e. EIOPA 5.83) is – unlike within the insurance sector – not relevant because of the existing security mechanisms of IORPs which are actually to be assessed by the HBS.	

			3. Shortcomings in the uses of the Holistic Balance Sheet Regarding the specific issues raised in this consultation, PensionsEurope's position can be summarised as follows: 3.1 Inadequate use for capital requirements (pillar 1) We think the HBS is conceptually wrong as an instrument for setting capital requirements. As capital requirements are neither part of the pension promise nor of the financing of this promise, we think there is no place for capital charges in the HBS. Conditional benefits would become unconditional in practice: Once the initially calculated capital charge is met by means of a higher funding ratio, the capital charge will have grown as the value of the conditional benefit will be higher at a higher funding ratio. This leads to a spiral that will only stop once the maximum of the originally conditional benefit will be granted, making it implicitly unconditional. Moreover, capital requirements for conditional benefits would imply a double charge for risk taking as both the resulting upward potential and the downward risk result in higher capital requirements. This would result in taking less risk, which is likely to be harmful for members of a pension fund as lower returns lead to lower pensions and higher contributions. a. HBS is inconsistent with using Solvency Capital Requirement (SCR)	

			PensionsEurope is convinced that the combination of the HBS and SCR is conceptually wrong. The HBS shows the current market value of all conditional and unconditional pension promises (assuming there is a complete market, which is not the case), and the way in which these promises are backed by current assets and conditional future payments (or benefit reductions). As capital requirements are neither part of the pension promise nor of the financing of this promise, there is no place for an SCR on the HBS. This can be illustrated for a simple (complete) agreement with a finite horizon where the participants will receive all revenues of the fund when it will close. If the stochastic simulations for the HBS are conducted over the full (finite) lifetime of the pension agreement, the HBS will exactly balance. The current value of assets is exactly balanced by the current value of 'unconditional' liabilities plus the profit sharing option (e.g. indexation option) minus the loss sharing option (benefit reductions). If the simulation horizon ends before the end of the agreement, the conditional pension rights after the simulation horizon will not be valued, and consequently there will generally be a residual (positive or negative). This residual represents transfers to or from the generations that will still be in the fund after the simulation horizon. In the view of EIOPA, the pension fund only disposes of sufficient capital when this residual will exceed the SCR. This would then in practice mean that, irrespective of the starting financial situation of the fund, current members should always have to make transfers to future generations. This cannot be regarded as beneficial for the current participants. In addition the longer the simulation horizon, the smaller the value of the residual will be (as the transfers are discounted), and therefore the less likely that the HBS (including the SCR) will balance. b. HBS is inconsistent with using a recovery plan Next to the fact that the HBS concept is inconsistent with the SCR, it is also inconsistent with a recovery plan. Calculating the HBS including	

			all conditional and mixed benefits as well as all security instruments requires to include all extra possible future funding like extra sponsor support and instruments such as benefits cuts. If the HBS does not balance, there is no further recovery plan possible, since all security instruments are already included in the HBS. The only conclusion one can draw is that the funding policy is insufficient to pay out the benefits as promised, thus that the pension agreement seems to be unsustainable (at current market prices and supposing a market actually exists). c. HBS cannot be used for supervisory response A third fundamental problem with the use of the HBS for capital requirements concerns the supervisory response given that the HBS can only be calculated assuming a complete agreement (including an agreement beforehand on the sharing of surpluses and deficits between the different stakeholders and all recovery mechanisms). This can be demonstrated for an IORP with an insufficient "holistic funding ratio" and a deficit of €100 million in order to comply with the SCR. In this situation for example, an additional payment by the sponsor of €100 million will be impossible, because this future security mechanism has already been valued in the HBS. Therefore, the outcome of the HBS is a take it or leave it deal. If the supervisor would not like the outcome, he might only suggest adjustments in the agreement or the recovery mechanisms, but the resulting HBS-outcome will be highly unpredictable as all HBS-items are interrelated. As a consequence, PensionsEurope deems this approach as not suitable for prudential supervision. d. The HBS is too complex to calculate In addition to these fundamental problems, the HBS also implies severe practical problems. Indeed the QIS1 (2012) has shown that in	

			practice IORPs faced great difficulties in providing accurate numbers, if these can be overcome at all. This is due to the unavailability of necessary data (market prices for long horizons, standard deviations and correlations and missing markets (like the prices for wage inflation)), and the complexity of the methods to use (i.e. risk neutral valuation in the absence of closed form calculation methods). The complexity of the methods to use, makes the HBS very sensitive - possibly too sensitive - for model and parameter assumptions, which can result in the valuation of HBS to change by tens of percentage points depending on the assumptions used. The simplifications that are being investigated may solve the problem of the complexity on the one hand, but will inevitably lead to overall inconsistencies on the other hand: any simplification will inevitably lead to the entire HBS no longer being (market) consistent. And if the simplification will lead to a different market value of balance sheet item, this different valuation will also impact the valuation of all the other balance sheet items. 3.2 Use for risk management (pillar 2)? The HBS might possibly be used as an instrument for risk management to obtain more insights in relative risks of the balance sheet, but other less costly methods would better achieve this goal. A well drafted HBS can provide insights in the relative risks for different stakeholders. It is important to note however, that this does not provide insights into the main goals of an IORP, for example the capacity to pay the current benefits or the capacity to compensate for inflation. It only gives the current valuation of the future cash flows against market prices (assuming there is a complete market, which is not the case) of conditional and unconditional pension benefits and the way these promises are financed. It will therefore never be possible to use the HBS as the sole instrument for risk management, but other	

			instruments will always be needed. Other instruments can for example consist of some sort of solvency projection (continuity analysis), ALM calculations and stress tests. If such instruments are available, we think there is little additional added value of also using the HBS, especially given the complexity of the information that the HBS provides. 3.3 Inadequate use as a transparency tool (pillar 3) We generally support transparency, but we have concerns with regards to the use of the HBS for transparency purposes. We do not think that the HBS approach is the right way to support it. The HBS cannot be used for transparency purposes mainly because the information that is provided by the HBS is not the information that scheme members need or expect, in addition it is way too complexed for members. A participant wants to learn about the risks facing his pension benefits, for example the probability that his benefits will be decreased or not adjusted to inflation, and what the magnitude of these events could be. The option values that are shown on the HBS do not provide this information, as these are not forward looking, but only provide for a relative ranking of risks. The fact that an indexation option (the market value of conditional indexation) currently has a value of for example 5, does not convey any information about the probability that the pensions will be indexed. It only provides the current market price of the option. As the participant cannot trade this option, this value is hardly informative. Technically, the option values provide information about the value of the optionality in a risk neutral world, but this is not the (real) world in which participants live. Moreover, as market conditions may change quickly, the option value	

			may be very volatile. We therefore conclude that the use of the HBS for transparency towards participants is neither desirable nor feasible. If specific elements of the HBS will be implemented as balancing items, we want to stress that it is still important to properly convey all the relevant information. As an example, if a specific form of sponsor support would be used as a balancing item but the coverage is not 100%, any remaining risk to the participants or the IORP should still be reflected elsewhere on the HBS. In addition, we would also like to point out that transparency needs to be treated carefully in this context. Sponsor support is an important security mechanism for IORPs. 4. Macro-economic effects We fear adverse macro-economic effects if the HBS were to be implemented due to increased capital requirements, higher contributions and/or lower benefits for the members and a lower incentive for employers to offer occupational pensions. We fear this would be contrary to the ambition of the European Commission to set up more occupational retirement schemes. Every increase in the costs of providing occupational pensions decreases an employer's willingness to provide this social benefit. This is concerning as when in times where most European societies undergo demographic changes, occupational pensions should be strengthened and coverage should be extended as emphasized by the European Commission in the White Paper – An Agenda for Adequate, Safe and Sutainable Pensions. Employers who continue to offer an occupational scheme and for Member States where the provision of occupational pensions is (semi-) mandatory, capital requirements have a negative influence on the benefits for the IORP members.	

			PensionsEurope warns that the introduction of the concept of a risk-based SCR might affect the strategic asset allocation of IORPs and will create important incentives for the IORPs to move away from long term investing in the real European economy. Investing in long term investments such as infrastructure for example will lead to high(er) capital requirements, where government bonds/interest rate swaps are treated as "risk-free". This could result in a rebalancing of the asset allocation away from investments in the European economy and companies (that might fluctuate over the short-term, but might offer long-term potential in return for this volatility/risk) into (government) bonds/swaps. We note that the European Central Bank also raised this issue in a paper published in July 2014. We highlight that pensions (not only occupational pensions) will only be sustainable and adequate in an environment where unemployment is lower and economic growth is higher in the long run. PensionsEurope warns these negatives effects run counter to the European Commission's increased emphasis on the so-called Capital Market Union and the channelling of private (pension) savings in long-term and job/growth-friendly investments. PensionsEurope is very worried that this regulatory steering of the investment choices of IORPs might have a negative impact on the cost of providing adequate and sustainable pensions via a funded system. This regulatory incentive to move away from long-term investing might not only have a micro-economic but also an important macro-economic impact. Moreover, PensionsEurope warns that applying a solvency capital	

			regime to IORPs based on the principles of Solvency II would risk to be pro-cyclical and therefore could affect financial stability across Europe. We think a proper impact assessment of such risk should be duly conducted. Finally, we also note that the HBS - if it were to be implemented – is likely to lead to the closure of many defined benefit (DB) schemes. Obviously, PensionsEurope is aware of the current shift from defined benefits to defined contributions (DC) schemes and the related shift of risk from the employer to the individuals. Without going into detail regarding the differences between DB and DC or hybrid schemes, we emphasise that European regulators should aim to support existing schemes. 5. The future of occupational pensions in Europe On a more positive note, we welcome the recommendation to consider grandfathering, which would mean that the new prudential requirements would not apply to existing IORPs. However, we still see a number of issues for the future of occupational pensions if an HBS-style approach to solvency were to be introduced: ☐ With state pensions being scaled back in many EU Member States, we envisage a strong second pillar for the future, which supports individuals in closing the gap the reforms of the first pillar have presented them with. Policy-makers and supervisors both at the national and the EU level should do everything possible to ensure that the framework occupational pensions operate in is adequate to support this goal.	

			☐ In addition, we think that the current proposals would foster consolidation in the pension sector. While there are certain advantages of larger schemes, e.g. economies of scale, we would like to warn that it is not desirable to grow schemes so big that their failure would cause a major crisis. We have seen the problems with institutions which are too big to fail – even though IORPs are fundamentally different form banks, they also do not benefit from a system with very few very large institutions. ☐ The consultation paper does not take into account any implications the HBS proposals and the supervisory response will have on what employers offer and how it affects coverage. To us it looks like EIOPA is assuming an occupational pension system where membership is mandatory. In many EU Member States this is not the case, and with further unnecessary burdens being imposed on employers offering occupational pensions, provision in those Member States is likely to go down. ☐ We doubt that the current suggestions will strengthen long-term investment or cross-border activity. The causalities presented in the paper are spurious. Finally and importantly, we do not envisage a future where the main concern of IORPs is how to comply with European legislation. Legislation should be designed in a way which allows IORPs to pursue their main objective: providing their members with a good value pension, so that poverty in old age is avoided and a large number of people can maintain a similar standard of living they used to have	

			while working.	
60.	PERNOD-RICARD	General Comment	Pernod-Ricard (PR), headquartered in France, is the sponsor of the UK based Allied Domecq Pension Fund (ADPF) . As at 30 June 2014, ADPF held assets of about £3 billion and was responsible for around 43,000 beneficiaries under a defined benefit structure. PR's operating affiliates across Europe hold other less important funds. We welcome this opportunity to express our concerns about the future of occupational pensions in Europe. Our answer below follows discussions held with many other international companies that sponsor major IORPs in the European Union. Sponsoring companies are key stakeholders in this debate, and we need to stress that their representation is in our view not properly ensured in the OPSG of EIOPA. We strongly reject the idea of establishing EU capital/funding requirements for IORPs and do not believe the holistic balance sheet should be used for this purpose or any other. More generally, we do not agree that the prudential framework for occupational pensions is derived from Solvency II. Like many other stakeholders (pension funds, employers, trade unions, governments, OECD…), we fear that the proposed quantitative	Noted.

			approach might have serious adverse consequences on pension systems, employment and long term investment in Europe. The European Commission has, to a large extent, acknowledged these concerns and decided not to introduce additional solvency requirements in its future IORP Directive. Therefore, it is not clear why EIOPA continues technical work in this area. Moreover, it makes no sense to discuss prudential rules for IORPs before any political decision is made about their role in the overall pension system and in the economy of the European Union. The starting point of the debate should be the principles stated in the White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" and in the Green Paper on "Long-Term Financing of the European Economy". First pillar pensions will be limited by the scarcity of Member States resources, and occupational pensions must then form a growing part of European pension systems. Today, less than a half of European citizens have access to a workplace pension. Extending the coverage of workplace pensions should be Europe's priority, rather than increasing the regulatory burdens on existing and well-established pension schemes.	
61.	PricewaterhouseCoopers	General Comment	The following submission is made by the UK firm of PricewaterhouseCoopers LLP. We have provided comments below on some of the questions posed by EIOPA. However, we continue to have major reservations which we	Noted.

			have summarised here along with some alternative suggestions. Although our comments are critical in nature we would wish to balance them by recording our appreciation of the work EIOPA has done which is helping to make risk management central to the effective management of IORPs. We firmly believe that finding an appropriate holistic way of balancing those risks is necessary and we will continue to engage constructively in that debate. Asside from some responses we have made in respect of particular questions, there are two main areas where we have particular concerns: 1) We question whether a "value of sponsor support" is required. The maximum value of sponsor support is a far more insightful concept 2) Valuing sponsor support should be about business valuation, not debt valuation The maximum value of sponsor support is all that's required We continue to question why a calculation of the value of sponsor support as described in the consultations is actually needed. In practice, and before turning to benefit reductions, it is necessary to understand the ultimate capacity of the sponsor to underwrite the scheme risks, including investment risk, and also to determine what	

			levels of contributions are affordable without damaging the sponsor strength on which the scheme relies. This capacity is closer to expressing the maximum value of sponsor support which still seems to be given a back seat in the paper. We see the maximum value of sponsor support as the far more useful concept which obviates the need for a calculation of the value of sponsor support. Leaving aside the method of calculation for the moment, the maximum value of sponsor support surely tells the user all they need to know. The maximum value of sponsor support is either sufficient or it is not sufficient. If it is sufficient or more than sufficient then sponsor support effectively becomes a balancing number in the HBS. If it is not sufficient then presumably the maximum value of sponsor support and the value of sponsor support are equivalent anyway. In summary we think there is an opportunity to significantly simplify the guidance by only defining and requiring one measure of sponsor support - the maximum value of sponsor support. We also believe this can be done using business valuation principles in a way which addresses the concerns expressed about the calculation of maximum value of sponsor support laid out in the QIS. We have set out these business valuation principles in our paper – "PwC research, in Institute and Faculty of Actuaries, Options for assessing employer covenant and the holistic balance sheet, Research Report, January 2013, Edinburgh/London" referenced in footnote 35 of the consultation. The question of how much sponsor support should be attributed to the pension scheme could simply be taken as the enterprise value of the sponsor, less any prior or equal ranking obligations, as described in the above discussion paper. At the HBS date (balance sheets are	

			designed to show a point in time position) it is a fact that the pension scheme would have legal recourse to that value based on its ranking as a creditor. This measure captures the investment requirements of the sponsor (as it is a post capital expenditure measure), but obviates the need to make subjective estimates of things like dividend payments to equity holders. Sponsor support is about business valuation not debt valuation The proposed methodology for valuing sponsor support is driven by a view of sponsor support as being akin to a debt-like item. This is also in turn driving the distinction between 1) the value of sponsor support (as defined in the QIS and the Alternative Approach) and 2) the maximum value of sponsor support. As described above, we question whether 1) is even necessary. Sponsor support as debt EIOPA equates sponsor support with the contributions required to meet the IORP shortfall and provides a simplistic method of valuing such a payment stream, driven by a desire to achieve market consistency. The required support is devalued by default risk and (unsurprisingly) fails to meet the shortfall in almost all cases: the value of sponsor support will equal Level A shortfall only when a AAA/AA sponsor meets the shortfall in a one year period which appears an astonishingly high hurdle. In every other case the HBS will fail to balance. In the context of	

			providing an overview of security for members this is a significant flaw. Also, and paradoxically, where a scheme is fully funded, and there is no shortfall, the Alternative Method would value sponsor support as zero. This is a surprising result for, in all likelihood, the strongest possible sponsor. These counter-intuitive results point to a fundamental flaw in the HBS methodology. Funded pension schemes look to their investments as a significant source of meeting the liabilities and, unlike an insurer, can also look to their sponsor to underwrite the risk in those investments as well as other risks. By discounting liabilities at risk free rates and equating sponsor support with the ability to make immediate payment of the resulting shortfall stretches both the logic of funded schemes and economic reality. It is, if implemented, likely to lead to investment decisions with damaging consequences both for the security of member benefits, capital markets and the wider economy. We believe the valuation of sponsor support is a business valuation question and the methodologies applied should therefore be based on commonly applied business valuation methods such as market multiples approaches and discounted cash flow. The main advantage of such approaches is that they would be simpler to understand and more familiar to participants (from their experience of financial reporting, mergers & acquisitions etc). The simplifications these valuation approaches embody (for example a fixed CAPM derived discount rate) make them no more flawed than the simplified debt valuation approach currently outlined with its use of broad credit rating scores which cannot sufficiently take into account the particular	

			circumstances of individual sponsors. Using these methods a high degree of consistency between valuations of different assets could still be achieved by setting out valuation principles which require a basis of valuation of the sponsor which is typically defined as "market value". A common definition of market value being: "the price which an asset might reasonably be expected to fetch on a sale in the open market between a hypothetical willing buyer and a hypothetical willing seller, each of whom is deemed to be acting for self-interest and gain and both of whom are equally well-informed about the asset and the markets in which it operates" A market basis of valuation would address the desire for "market consistency" because it would require inputs that were derived from, or benchmarked to, market observable inputs. Most importantly the approaches would be recognized and more easily understood by users as well as being more consistent with the simplified valuation approaches used by equity analysts and for the purposes of financial reporting.	
62.	PSVaG	General Comment	PSVaG as Pension Protection Scheme in Germany and Luxembourg The PENSIONS-SICHERUNGS-VEREIN Versicherungsverein auf Gegenseitigkeit (PSVaG) is the statutory agency providing insolvency protection for occupational pension schemes. The sole purpose of this mutual insurance association is to guarantee occupational pensions in the event of an employer becoming insolvent in the Federal Republic	Partially agreed. EIOPA proposes in its opinion to the European institutions to introduce a common framework for risk

			of Germany, where this guarantee function is fulfilled pursuant to the Fourth Section of the German Law on the Improvement of Occupational Old-age Pensions (BetrAVG), and in the Grand Duchy of Luxembourg. The PSVaG was assigned responsibility for protecting corporate pension schemes in accordance with the German Company Pension Act (BetrAVG) enacted in December 1974. When a company is declared insolvent, the PSVaG assumes responsibility for paying benefits to all employees and pensioners who are entitled to occupational pension benefits covered by the pension protection scheme (PPS). As a rule, the PSVaG covers 100% of the obligations of IORPs subject to statutory insolvency pension protection in Germany and Luxembourg. Pension protection is funded by contributions from the approximately 94,000 sponsoring employers in accordance with statutory requirements representing the major part of the German economy. Protection through a PPS should be taken into account In our view, protection through a PPS should be taken into account as an sufficient asset in the holistic balance sheet (HBS), as IORPs would otherwise be subject to unreasonable capital requirements for no justifiable reason. In Germany, the PSVaG represents a central component of the occupational pension system. An overall assessment from the viewpoint of IORPs ,members and beneficiaries must	assessmentand transparency. The common framework's balance sheet should include all security and adjstument mechanisms.

			necessarily include pension protection institutions backing a sponsor, as a pension protection institution represents an essential security mechanism for IORPs and their members and beneficiaries. The PPS is an important security mechanism for occupational pension promises via safeguarding the pension promise and should therefore be considered in an HBS. Since the foundation of the PSVaG in Germany fourty years ago, no beneficiaries or pensioners with PPS protection have lost their legally protected pension rights because of the insolvency of the sponsoring employer. Not taking PPS into account in the HBS would therefore remove it even further from the reality of occupational pensions in some European Member States. Valuation of a PPS If against the recommendation of employers and other stakeholders, the HBS is introduced, the balancing item approach could be a feasible method to value the protection through a PPS. We recommend that the details of the valuation of a PPS should be left to Member States. The calculation should be appropriate and specific in particular to their national social and labour law. This enables to cover different types of PPS as well as country specific differences. Remark We limited our answers to questions concerning the inclusion and valuation of a PPS in the HBS.	

63.	Punter Southall	General Comment	About Punter Southall Punter Southall ("PS") provides a full range of pension consultancy services in the UK including actuarial consulting, pension scheme administration services, defined contribution plan consulting, health and protection services, investment consulting and international consulting. Our clients are primarily medium and large sized UK occupational pension schemes and their employers. We are part of the Punter Southall Group which has over 950 staff in 14 locations throughout the UK and whose pension scheme clients range in size from around 20 members to over 80,000 members. www.puntersouthall.com PS is fundamentally opposed to the proposal to apply a regime based on Solvency II to IORPs. We believe that the adoption of a regime designed for insurance companies by IORPs through the use of the holistic balance sheet is inappropriate and will be potentially damaging to UK IORPs and the wider UK economy. Further, there is no evidence to support the need for a revision of the existing IORP funding framework which has continued to work well, even in the existing challenging economic environment. PS's General Comments on the Consultation Paper on Further Work on Solvency of IORPs	Noted.

			PS notes that EIOPA has undertaken the work on this consultation on its own initiative following its quantitative impact study on IORPs, the results of which were published in July 2013. It is unclear why EIOPA has decided to undertake this work without any further direction from the European Commission and, in particular, there is no evidence to support EIOPA's preference for the holistic balance sheet approach over the existing IORP funding framework. Given our fundamental opposition to the holistic balance sheet we have not responded to many of the technical details of the consultation. However, where we have not answered a particular question, this should not be taken as our tacit or implied agreement to the holistic balance sheet.	
66.	RPTCL	General Comment	As background information to our response, Railways Pension Trustee Company Limited (RPTCL) is the Trustee of four private sector pension schemes serving employees, pensioners and employers involved in the UK railways industry. In total, these schemes have around 350,000 members, including around 85,000 active members who are accruing defined benefits. Over 150 private sector employers, including a number with non-UK parent companies based elsewhere in Europe, are involved in sponsoring RPTCL's schemes, as are also the UK's Department for Transport and the British Transport Police Authority. Total scheme assets are some £20bn. As an overarching comment, we very much disagree both with the concept of the "holistic balance sheet" and also attempts to reference IORPs to insurance companies. We believe that the framework for the ongoing funding of IORPs should reflect current practice which, in our	Noted.

			view works satisfactorily. In particular, for reasons we set out in this consultation paper – and in previous consultation responses – we believe that the concept of placing a "value" on sponsor support at a point in time will, for a very substantial proportion of IORPs be costly, time-consuming and most likely of little value. There are so many variables affecting both the future cash flows of sponsors – but also, importantly, how these cash flows might fall to IORPs (for example, to mention but a few, inter-creditor arrangements and structural priorities, pension contributions vs sponsor investment decisions, intra-group arrangements, contingent support arrangements) – that we believe that any attempt to place a "value" on them (particularly for unquoted sponsors) will in a great many cases be contrived and potentially subject to manipulation – particularly using some of the bases set out in the consultation paper. The position of IORPs and their sponsors is dynamic, and investing time and cost in seeking to arrive at point-in-time sponsor support "valuations" is not appropriate for the IORP environment. In the sectionalised Railways Pension Scheme ("RPS") – with more than 150 employers supporting more than 100 stand-alone sections – our experience over a number of years is that sponsor support must be looked at "in the round" as part of an overall integrated and dynamic funding process considering sponsor support and contributions, investment strategy (including risk, return and liquidity) and benefit design. In the RPS, this must be done in the context of a shared cost scheme. These are matters requiring skilled and professional judgement and, in our view, there are significant risks of using a formulaic-type exercise "trying to make the numbers balance" for scheme funding purposes or regulatory reporting within a tool such	

			as the holistic balance sheet. Over the lifetime of an IORP, investment income and returns will usually far outweigh contributions. We strongly believe that it would be far more appropriate to move to a mindset of requiring IORPs to "assess" sponsor support "in the round" as part of an appropriate funding strategy, rather than "value" sponsor support on a holistic balance sheet. The former approach provides a platform for a sensible, and dynamic, consideration of investment strategy, benefit design and contribution scheduling. That is what we do as part of an integrated approach to funding the various IORPs for which RPTCL is responsible. We also believe that the comparison with many insurance companies and IORPs is misguided. The nature of IORPs' activities is almost always very "long tail", dynamic and subject to evolution over many years (with key evolving variables including, for example, longevity). A skill of IORPs and sponsors is to keep funding towards a perpetually moving target in a volatile world.	
67.	Siemens Pensionsfonds	General Comment	Siemens Pensionsfonds AG calls upon the European Commission and EIOPA to refrain from increasing the capital requirements for IORPs and especially from extending the requirements of Solvency II to IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardise not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this in the end to the detriment of beneficiaries.	Noted.

			Therefore, the continued technical work by EIOPA on the HBS is not the right approach. Although EIOPA thinks that the HBS methodology will be required in one or another form, the recent version of the IORP directive proposal actually does not justify any quantitative requirements based on the HBS approach. It must be noted that the HBS approach does not adequately fit to the social character of IORPs and is therefore not appropriate. In other words, it neglects that the members of IORPs are embedded in the protection of labour, social and co-determination law. Every move towards a system that places more burdens on IORPs and their sponsoring undertakings contradicts the fact that in times where most European societies undergo demographic change, occupational pension systems should be strengthened rather than weakened. Every increase in the costs of providing occupational pensions decreases the employer's willingness to provide this important social benefit. This is even more the case in Germany, were the provision of occupational pensions is done on a voluntary basis. It should also be kept in mind that any additional regulatory requirement imposed on IORPs will result in costs which will be borne mostly by beneficiaries and members. European employers cannot afford more costs due to the fact that their secondary wage costs are already at such a high level that any further increase will pose a threat to their international competitiveness. As a result, higher costs are likely to lead to a decrease in benefit level and coverage of occupational pension plans. We generally consider the market value based approach inadequate for liabilities with such long durations. Moreover, there is normally no	

			need for IORPs to liquidate all pension liabilities at one point in time. For insurance contracts the approach might be adequate as hypothetically all contracts could be cancelled at the same time, but for occupational pensions labour law does not allow early cancellations. Instead of that we would prefer to see a strengthening of the subsidiarity principle by allowing options which give the Member States the responsibility for defining regulatory details in line with national labour, co-determination and social law. Accordingly, we refuse the idea that European regulatory requirements could be imposed on the labour, co-determination or social law at the national level. Europe should continue with clear borders between these different fields of law and the supervisory regulation should always be subordinated. In Germany pensions are safeguarded already by labour, co-determination and social law. Additional equity capital requirements for IORPS would not increase the security of pension promises but will make it more unattractive for employers to offer occupational pensions. In this context, we welcome the insight of EIOPA that it may be better for members and beneficiaries if a sponsor invests in his own business to ensure the pension promises in the long run instead of transferring additional funds into its IORP. Last but not least, the prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads them to revisit their commitment to continuing to offer	

			workplace pensions of the kind which would be affected. These employers are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses for increasing their level of investment. Furthermore, this continuing uncertainty about the scale of revisions to the supervisory regime may have a significant detrimental impact upon wider economic activity in our sector and trigger changes in employers' behaviour as they could anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. In summary, the HBS approach is unsuitable for company pensions and should therefore be omitted. Within this unfitting concept only those proposed options, if any, might be applicable where all security / reduction mechanisms are applied. In no case effects on funding are allowed to arise.	
68.	Society of Pension Professionals	General Comment	The Society of Pension Professionals (SPP) is the UK representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. We do not lobby on behalf of companies, organisations or individuals. Our Members' profile is a key strength and includes accounting firms, solicitors, life offices, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. The Society 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	Noted.

			one or more of our Members, including the overwhelming majority of the 500 largest UK pension funds. Our growing membership collectively employs some 15,000 people providing pension-related advice and services. These comments have been prepared by the Society's European Committee. The Committee comprises professional advisers – mainly legal and actuarial - to an array of UK IORPs and representatives of UK insurers. Responsibility for drafting responses to particular questions has been allocated to several of the Committee members. Those responses have been shared across and agreed by the Committee. At least one of the Committee questions the legal basis for EIOPA taking this initiative process and as such does not wish to enter into this dialogue for fear that engagement will be taken as consent. This is based on the fact that this has happened before. It was also widely reported that during the development of the IORP 2 Directive proposals that there would likely have been a blocking minority under the qualifying majority voting rules against any type of solvency rules being introduced. This resulted in solvency rules being removed from the proposal - which has recently been agreed by the Council of the European Union. Some of our members take exception to this transparent attempt to side-step the processes of democratic accountability built into the EU legislative process. We do not believe	

			that EIOPA should undertake this work, irrespective of whether it considers it able to do so on an „own initiative" basis under regulation 1094/2010. In our view, it is questionable that the Regulation actually provides for EIOPA to carry out such detailed analysis and work on its own initiative and we believe that EIOPA should – for the record - set out the precise aspects of the Regulation on which it is relying. Whilst we acknowledge that the work EIOPA has carried out to date on the HBS has helped develop the debate on the security, sustainability and adequacy of second pillar pension provision in Europe, the SPP does not believe that EIOPA should continue with this work: In particular, we believe that funding/capital requirements should be left to individual Member States. If an individual Member State believes that using an HBS approach would be useful in their local circumstances, they would be free to adopt this. We believe that seeking to harmonise supervisory practice across the EEA is conceptually wrong - in part because of the huge variation between Member States in relation to the replacement ratios arising from first/second pillar provision. Attempting to harmonise one whilst ignoring the other has potentially significant adverse repercussions. Moreover, we are not convinced that continued expenditure of time, effort and money by EIOPA, national professional bodies and IORPs is justified by any perceived benefit. As we understand that EIOPA uses a computer-based ‚tool' to analyse responses to its consultations, we have repeated the previous two paragraphs at the beginning of each answer, so that our response should be considered in the appropriate context. (We have attempted to make any additional comment clear by ensuring that the general	

			contextual comment is shown in italics.)	
69.	SUEDWESTMETALL	General Comment	Suedwestmetall, the Federation of Baden-Wuerttemberg Employer's Associations in the Metal and Electrical Engineering Industries, calls upon the European Commission and EIOPA to refrain from extending the requirements on solvency of IORPs. The Holistic Balance Sheet initiative is highly unlikely to foster more more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardize not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this at the expense of the employees and the pensioners. The application of further solvency requirements to institutions for occupational pension provision via a "Solvency II-like" approach using the Holistic Balance Sheet (HBS) methodology is objectively unjustified and counterproductive. It is objectively unjustified because both the existing institutions for occupational pension provision in Germany and the corresponding entitlements of the claimants are already extensively regulated and secured by national regulatory law and financial supervision. In addition to the employers' subsidiary liability, the Mutual Pension Insurance Association (Pensionssicherungsverein) has an obligation to assume liabilities in the event of an employer's insolvency. These structures have proved themselves successfully even during the recent financial crisis. Furthermore, the legal provisions regulating the insurance industry are not transferable to institutions for occupational pension provision because of a lack of comparability: the latter institutions do not offer	Noted.

			financial services products and are therefore not in competition with other old-age pension products on the open market. The application of new own-funds requirements would furthermore be counterproductive, as it would run contrary to the need to expand occupational pension schemes as a supplement to public pensions. Further regulatory intentions of the European Commission and EIOPA would considerably increase the costs of occupational pension provision, costs that could only be financed by reducing the payments made to the beneficiaries or by increasing contributions by companies. We also believe that, given the diversity of pension arrangements across the European Union, it is inappropriate to search for a single approach at EU-level. In line with the subsidiarity principle, a revision of the supervisory regime in the direction of a Holistic Balance Sheet (HBS), would not be appropriate and would even be higly damaging. The prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty,now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer workplace pensions of the kind which would be affected. For these employers, they are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses to increase their level of investment. Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity in our sector and risks triggering changes in employer behaviour as they anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. Consequently, and in summary, Gesamtmetall is convinced that	

			further reform of the supervisory and funding arrangements runs a real risk of creating an illusory ‘pension security’ only, as employers will be compelled to reconsider their commitment to workplace pensions affected by this consultation in light of the significant, adverse, fincancial consequences which they may ultimately face. Also, the financial impact on many companies could result in them ceasing to be profitable, risking reduced investment in jobs, skills and Research and Development, and even closure. The overall impact will be one of reduced overall employer investment in workplace pensions. For all these reasons we ask EIOPA and the European Commission to refrain from further initiatives on Solvency of IORPs.	
71.	Towers Watson	General Comment	Towers Watson welcomes the opportunity to comment on this consultation paper. We acknowledge the work that EIOPA has carried out to date on the development of the Holistic Balance Sheet. We believe that this has been a valuable contribution to discussions about the security, sustainability and adequacy of second pillar pension provision in Europe. Indeed, it has been a useful concept for supervisors, sponsors and those managing IORPs when considering whether and, if so, how to assess values of and risks attaching to various assets and liabilities held within pension funds. However, Towers Watson does not believe that there is additional merit in trying to pursue this work further at an EU-wide level. We also have grave concerns that using the HBS to assess funding requirements, particularly if these requirements are set at Level A technical provisions could have severe undesirable consequences for long-term sustainable investment in Europe.	Noted.

			Comments we made in response to the discussion paper on the sponsor support technical specification remain appropriate today – and we repeat some of these below; shown in quotation marks for ease of reference: “We still consider a valuation as largely unnecessary, potentially administratively burdensome and with costs that are disproportionate to any benefit. However, we recognise the key role that sponsor support would play if an Holistic Balance Sheet were used as a risk management tool for IORPs. As set out in our letter to M. Michel Barnier dated 11 June 2012 we consider that havingsponsor support as a ‘balancing item’ in the HBS would be the best approach. “ [the letter is attached as a pdf to the email used for sending this consultation response] The general themes of Towers Watson’s response are as follows: • we do not feel that a detailed valuation of sponsor support - such that this is condensed into a single number - is readily doable or useful • EIOPA’s desire to obtain a meaningful harmonised ‘basis’ for valuing all elements of the HBS is probably unachievable; of course ‘technically’ a prescribed basis could be used, but it would have no practical relevance; for example, even on the sole point of sponsor support valuation EIOPA’s own data shows extreme variation in outcomes dependent on how this is carried out • Member States (and their own regulatory authorities) are best placed to determine what is appropriate as a basis for assessing	

			solvency/risks relating to IORPs based in their jurisdiction	
72.	United Utilities Group	General Comment	United Utilities Group PLC (UU) UU is a UK based FTSE 100 regulated utility which delivers water and wastewaterservices to the North West of England. We operate two defined benefit pension arrangements with cpmbined pension assets of c€3billion. We are a member of the 100 Group and the National Association of Pension Funds and would normally comment on consultations via their submissions. We strongly support their submissions and felt that it was important to demonstrate that their views are shared by indvidual companies by additionally submitting our own response. We do not support EIOPA's work in developing the Holistic Balance Sheet concept and believe that our and other UK pension scheme Trustees already carry out appropriate assessments of employer covenant and take this into account within the valuation, funding and investment process and are monitored in doing so by the Pensions Regulator. Any additional requirements will increase cost, complexity and confusion but will not, in our view, provide additional security or understanding for members. Our response We have not commented on most of the technical questions but support the responses of the 100 Group and NAPF. We have tended	Noted.

			to comment on a few of the specific questions asked by the consultation. Our silence on a particular question should not be taken as assent, nor should the fact of us responding to this consultation at all be taken as us agreeing to the concept of the holistic balance sheet or to the placing of a single value on sponsor support.	
73.	USS Limited	General Comment	This response is from Universities Superannuation Scheme Limited (USS Limited), which is the corporate trustee of the largest private sector pension fund in the United Kingdom with assets of over £42 billion. The company was established in 1974 to manage and provide trusteeship to the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions. Today, USS is the pension scheme provided by more than 360 UK higher education institutions, with a total scheme membership of 316,000 and growing, with over 154,000 actively contributing members. General comment We welcome this opportunity to respond to the 'Consultation paper on further work on solvency of IORPs' issued by EIOPA. The latest consultation paper is part of an ongoing debate on European capital funding requirements for IORPs that has been running for a significant period of time. We would stress the importance of there being a meaningful discussion of this issue - not just at a technical level – that recognises economic implications and other strategic objectives of the European Commission (EC). We welcome the fact that the consultation document acknowledges the	Noted.

			different national pension systems that exist across member states and the different types of support provided to IORPs by sponsors and protection systems. Economic and policy context The proposed changes in capital requirements outlined in the consultation paper would have significant implications on the wider European economy. The extent of the impact would depend on the form of the Holistic Balance Sheet (HBS) model adopted as several possibilities are outlined in the consultation. However, it is likely that IORPs would need to move away from investing in the 'real' economy (including equities, property and infrastructure) whilst sponsors would be required to reduce their investment in core business activities. This would appear to be at odds with the desire of the EC to encourage growth, investment and job creation within the real economy in Europe. Following the recent European elections, a desire for a more 'joined up' approach to implementing EU-wide legislation is now in place. It is not clear that any additional regulation in the area of capital funding would be accepted by the EC (as the revised IORP Directive continues to progress through the European parliamentary process). Imposing the HBS will certainly not incentivise any sponsor to set up or maintain defined benefit (DB) pension provision, including cross-border provision. As a result the sustainability and adequacy of pension benefits for members of IORPs could be undermined. A focus on good practice within defined contribution pension provision is a	

			higher priority as this is likely to become the dominant form of future pension provision across Europe. Holistic Balance Sheet specific comments It is not clear how the HBS contributes to achieving the EC's broader objectives of creating adequate, sustainable and safe pension systems. There is no evidence that the HBS will improve the security of benefits for members, or in the UK protect the likelihood of calls on the Pension Protection Fund (which have been limited in number to date). There are several possibilities regarding the form of the HBS model – ranging, in our view, from a worst case scenario (example 1) to a least change option (example 6). The outcome under each example varies widely making it difficult to form a precise view on the HBS. Even as currently proposed, under some scenarios the HBS does appear to largely mirror the solvency II requirement for insurers. There are essential or necessary differences between IORP funding and the capital requirements for insurance companies and the distinction between the two should be clear in how they are regulated. The suggestion of a simplification to the HBS through a 'balancing item' approach is a welcome development - yet further work is required on this and we have concerns about how this will work in practice (see question 39).	

74.	vbm	General Comment	vbm, the Association of the Bavarian Metall an Electrical Industry, calls upon the European Commission and EIOPA to refrain from extending the requirements on solvency of IORPs. The HBS initiative is highly unlikely to foster more sustainable pension saving and provision. On the contrary, it would lead to a grave loss of efficiency for occupational pension schemes in Germany without any gain in security and stability. Such regulations would jeopardize not only the necessary expansion of occupational pension provision in Germany, but also the institutions that already exist – and all this at the expense of the employees and the pensioners. The application of further solvency requirements to institutions for occupational pension provision via a "Solvency II-like" approach using the Holistic Balance Sheet (HBS) methodology is objectively unnecessary and counterproductive. It is objectively unnecessary because both the existing institutions for occupational pension provision in Germany and the corresponding entitlements of the claimants are already extensively regulated and secured by national regulatory law and financial supervision. In addition to the employers' subsidiary liability, the Mutual Pension Insurance Association (Pensionssicherungsverein) has an obligation to assume liabilities in the event of an employer's insolvency. These structures have proved themselves successfully even during the recent financial crisis. Furthermore, the legal provisions regulating the insurance industry are not transferable to institutions for occupational pension provision	Noted.

			because of a lack of comparability: the latter institutions do not offer financial services products and are therefore not in competition with other old-age pension products on the open market. The application of new own-funds requirements would furthermore be counterproductive, as it would run contrary to the need to expand occupational pension schemes as a supplement to public pensions. Further regulatory intentions of the European Commission and EIOPA would considerably increase the costs of occupational pension provision, costs that could only be financed by reducing the payments made to the beneficiaries or by increasing contributions by companies. We also believe that, given the diversity of pension arrangements across the European Union, it is inappropriate to search for a single approach at EU-level. In line with the subsidiarity principle, a revision of the supervisory regime in the direction of a Holistic Balance Sheet (HBS), would not be appropriate and would even be highly damaging. The prospect of further revision to the funding regime is creating considerable instability for employers. This climate of uncertainty, now stretching back over years, undermines employers' confidence in their ability to plan for the long-term and leads to employers revisiting their commitment to continuing to offer workplace pensions of the kind which would be affected. For these employers, they are concerned about the future impact on their investment plans for jobs, growth and capital infrastructure at a time when Europe is asking the same businesses to increase their level of investment.	

			Further, continuing uncertainty about the scale of revisions to the supervisory regime itself has the potential to have a significant detrimental impact upon wider economic activity in our sector and risks triggering changes in employer behavior as they anticipate a significant worsening of the regulatory environment. This is likely to negatively impact upon the provision of occupational pensions. Consequently, and in summary, vbm is convinced that further reform of the supervisory and funding arrangements runs a real risk of creating an illusory 'pension security' only, as employers will be compelled to reconsider their commitment to workplace pensions affected by this consultation in light of the significant, adverse, financial consequences which they may ultimately face. Also, the financial impact on many companies could result in them ceasing to be profitable, risking reduced investment in jobs, skills and Research and Development, and even closure. The overall impact will be one of reduced overall employer investment in workplace pensions. For all these reasons we ask EIOPA and the European Commission to refrain from further initiatives on Solvency of IORPs.	
75.	ZVK-Bau	General Comment	Zusatzversorgungskasse des Baugewerbes AG (ZVK-Bau) thanks for the opportunity to answer to the Consultation on Further Work on Solvency of IORPs. ZVK-Bau is Germany's biggest pension fund in terms of members and beneficiaries. It is located in Wiesbaden, Germany, and a paritarian institution founded in 1957 by the trade union and the employers'	Noted.

			organizations of the German construction industry. ZVK-Bau administers an industry-wide paritarian pension supplementary pension scheme for 510,000 construction workers employed in 54,700 companies and 386,000 beneficiaries based on collective agreements of general application (allgemeinverbindlich). Due to a new social contract starting in 2016 ZVK-Bau will serve 630,000 construction workers employed in 70,000 companies from that time onwards. ZVK-Bau decided to formulate answers to specific questions, even if we disagree on the principles and the approach brought forward in the general structure of a Solvency II-shaped supervisory regime enriched by some IORP-specific modifications. We regard this initiative of EIOPA even as counterproductive to the overarching pension policy laid down within COM’s White Paper “An agenda for adequate, safe and sustainable pensions”. Herein declared COM it’s desire to strengthen Pillar-2-pensions. This is in stark contrast to the events that are going to follow in the wake of a supervisory regime as it can be envisaged by the actual consultation. Even today there seems to be strong evidence that the sheer possibility of an HBS with a baseline that relies on Solvency II and especially that brings forward capital requirements based on market valuation etc influences market and investment behavior negatively like the ECB study revealed. Elaborating more intensively on the HBS we regard lesser sponsor willingness for defined benefit schemes almost as certain. This leaves beneficiaries with all the risks of a pension “promise” consisting of nothing but a contribution promise per month or per year. To research on this kind of qualitative topics should be the foremost	

			task of a consultation dealing with the HBS. We suggest that EIOPA should analyse the political implications of the intended supervisory regime and deliver findings on the following questions: 1. How will a supervisory system which relies heavily on quantitative modeling affect the willingness of IORP's sponsors to provide defined benefit pensions? 2. Would such a regime annihilate sponsors' willingness to provide Pillar 2 pensions completely or would it lead to a closure of defined benefit schemes and provision of defined contribution schemes? 3. Will the risk transfer from sponsors towards beneficiaries within defined contribution schemes affect the willingness of employees to participate in this kind of schemes? Would this raise their risk of old age poverty? After careful examination of these fundamental questions EIOPA should decide if a further work on solvency in form of an HBS really seems to be reasonable. We fear that this consultation once again leads to biased results cause only big IORPs will participate due to strain on personal or financial resources (i.e. for external consultation). Smaller and medium-sized IORP usually refrain from participating. We suggest to analyse this thoroughly and draw the necessary conclusions like the missing representativeness of the answers. Once again the actual consultation deals with an IORP model that is characterized by: - funded schemes	

			- where every beneficiary has an identifiable account Schemes where a multitude of employers share the responsibility to provide an industry-wide calculated pension based on collective equivalence – meaning that there are no individual accounts and the industry-wide contribution is set in a way to cover the industry-wide benefit – are far beyond the possibility to model within the suggested framework. Same is true for partly funded partly PAYG-financed schemes. Due to collective equivalence the contribution rates are assessed at least every three years to guarantee that the estimated financial requirements are met. The contribution rate serves as the most important steering mechanism of the scheme. Since ZVK-Bau contains all of the above mentioned peculiarities we find it hard to answer the questions correctly because lots of our security mechanisms, ways of planning, operating and controlling our business do not fit to the model in mind EIOPA. To illustrate this, we would like to mention the sponsor support: especially paritarian IORPs whose schemes are based on collective bargaining agreements like ours provide a well-balanced security for scheme sponsors (the employers) as well as scheme beneficiaries. The pension promise itself, the conditions to gain a pension, the contribution rate, any raises of latter and even last resort benefit reductions are agreed during collective bargaining processes. They are fixed in the best interest of sponsors and beneficiaries to provide a long-lasting equilibrium between productivity of the sponsors on one side and wage and fringe benefit justice for the beneficiaries on the other side. The powers to fix and – if needed due to cases of distress – adjust these conditions of the schemes stem from the collective bargaining powers of the social partners as laid down in national social	

			and labour law. Therefore the degree of freedom to adjust scheme conditions, contribution rates and last resort benefit reductions is higher for paritarian IORPs than for IORPs that dispose only of a “normal” restructuring clause (last resort benefit adjustment) or “normal” sponsor support. Within paritarian IORPs every raise of the contribution rate is part of this above mentioned equilibrium: the result of the almost yearly bargaining process between social partners is a package that consists of wage raises, pension funds contribution rates, working time, fringe benefits etc. So every raise of pension funds’ contribution is financed not only by the sponsoring enterprises but economically by all employees too because the latter abstain from getting possible wage raises or fringe benefit improvements or decide to raise productivity (by longer working hours for example). Sponsor support cannot be measured only against financial resources of a sponsoring company but has to acknowledge that – especially in industry-wide IORPs - employers and employees of the whole industry support the scheme. This works for a whole recovery period if necessary. If thrown back to EIOPA’s baseline model we are obliged to calculate the value of sponsor support via ratings of the sponsors or – as a simplification – via the ratings of the biggest sponsors. Our IORP serves almost 55,000 (fiftyfive thousand) enterprises today (starting in 2016 the number will raise to 70,000) of which the biggest five only make up for around 5 % of the contribution rate and 92 % of the sponsoring enterprises have less than 20 employees. Therefore 92 % of the companies within our IORP neither calculate or publish financial data like EBITDA nor provide a rating opinion and hence we cannot deliver the data needs for calculating sponsor support. Does that mean that the beneficiaries are in any danger of sponsor support loss?	

			On the contrary: Since the beginning of operations in 1958 ZVK-Bau coped with up to thousands of insolvent sponsors every year without any beneficiary denying his or her well-deserved pension. This works due to inter-industrial solidarity and the abstinence of individual pension accounts. Therefore the legal framework and the construction of the IORP itself works as kind of a Pension Protection Scheme for all almost 55,000 enterprises within the construction sector of Western Germany. Regarding (strong) sponsor support as a "balancing item" (BIA) in combination with a easy to use model like PwC's "M" approach seems to be a sensitive way to solve these data problems. But in case of funds that are only partly funded and are based collective equivalence even this concept only works in combination with the wage sum. Additionally we strongly suggest - in case the conceptionally wrong HBS is introduced at all despite all warnings – that confirmation of a strong sponsor, a multi-employer-scheme (MES) or existence of other security mechanism as balancing items should release IORPs from setting up a holistic balance sheet or Solvency II-like risk based solvency capital requirements. At last, we are concerned that market consistent accounting will introduce excessive volatility in our balance sheet. As mentioned before since the beginning of operations the most important steering mechanism was adjustment of the industry-wide contribution rate. Within the last 55 years the contribution rate was adjusted 25 times. It had an average of 1,36 % and a standard deviation of 0,64 %. With mark-to-market valuation of assets and liabilities we fear that the standard deviation will explode so that the contribution rate is impossible to predict for sponsors and therefore hampers their ability to plan their business operations. By this an ill-designed regulatory	

			framework might affect normal business operations.	