

**Comments Template on  
Discussion Paper on Sponsor Support Technical Specifications**

**Deadline  
31 October 2013  
18:00 CET**

Name of Company:	FRC - Financial Reporting Council	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool</li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, in Word Format, to <a href="mailto:DP-13-001@eiopa.europa.eu">DP-13-001@eiopa.europa.eu</a></b></p> <p><b>Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p>The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.</p> <p>We oversee the professional regulation of actuaries and accountants in the UK, and set standards for actuarial work for IORPs and insurers. We set financial reporting and audit standards and review financial statements and audits for public interest entities in the UK including some IORP sponsors' financial statements. We are also responsible for the UK's Corporate Governance Code which sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders, as well as the Stewardship Code which promotes investor engagement. The principles of</p>	

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the Codes are adopted by pensions regulators for application to the governance of IORPs.

The sponsor support discussion paper (“paper”) considers the valuation of sponsor support without explaining how that valuation will be used or its relevance to the EU’s single market objectives in the context of privately-sponsored IORPs. We consider that it is critical to have the objective of a valuation in mind when designing and testing it. Doing so facilitates cost benefit analysis and enables proper impact assessment in line with the principles of good regulation. In our view these are equally as important when reviewing “soft law” as “hard”, particularly in reviewing unintended consequences.

The sponsor support valuation concept was outlined as part of an holistic balance sheet approach for IORPs. We had understood that that approach was not to be taken forward in the short term, with which we agree. Progressing therefore with technical guidance on the valuation at this stage without first establishing a workable framework, seems to us to be premature.

We therefore request EIOPA to explain what regulatory or other action it envisages might be taken by regulatory bodies, IORPs and sponsors using the proposed valuation of sponsor support as a basis or decision-making factor.

We question the reliability of any single estimate of a market-consistent value of the sponsor covenant particularly as there is no deep and liquid market for assessing the value of long-term best endeavours type income streams such as those proposed. We also question whether one valuation method can be found which can reliably cover the wide range of IORPs of different nature and sizes subject to different national social and employment law.

We have severe doubts that it is possible to explain how the models proposed will satisfactorily represent the ability and willingness of a sponsor to make contributions to an IORP over more than the short-to-medium term.

In view of these limitations we think that if valuations are carried out, it will be very

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	important that their purpose and limitations are communicated so that appropriate judgement can be applied in any decision-making.	
Q01.	As we understand that the holistic balance sheet approach is not being taken forward in the short term, we do not consider that additional guidance in this form is needed. If practitioners wish to develop the concept of valuation of sponsor support this should be done through professional collaboration and existing standard-setting mechanisms. We do not consider it necessary for a European regulatory body to lead that development unless it is intended that the valuation be developed as a regulatory tool.	
Q02.	It is not possible to comment on which simplifications should be adopted without knowing how the valuations of sponsor support will be used. However we support development of other simplifications if they strike an appropriate balance between the benefits and reliability of the information and the cost of compliance.	
Q03.	We consider that the concept of maximum sponsor support might be useful to governing bodies of IORPs when making strategic decisions on matters such as setting contribution plans and investments. However, we consider that it is not possible to place a reliable valuation on maximum sponsor support. An alternative approach which might provide better information to governing bodies of IORPs would be to assess affordability.	
Q04.	We are not convinced that wage is an appropriate measure as wage bills vary enormously for companies depending on factors such as how labour intensive their business is. However, we acknowledge that any simple measure will have limitations due to the wide range of different sponsors. It will be important to think through potential unintended consequences of the impact of simplifications. As noted at question 3, affordability seems to us to be a more relevant factor.	
Q05.	The concept appears reasonable although we would note that any simple approach will have limitations as is recognised in Annex 1 and we question the reliability of any particular simple formulaic assessment which might give a false understanding of the strength of the sponsor.	

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	However, there is only limited justification for the structure and parameterisation of the proposed model in the discussion paper. We request that EIOPA provide a more detailed explanation of the rationale for their proposed approach.	
Q06.	This depends on how the valuation of sponsor support will be used. A standard table would have the attraction of simplicity but could lead to unreliable information and/or unintended behavioural consequences.	
Q07.	Not answered	
Q08.	This conclusion appears reasonable but we encourage EIOPA to carry out further research on the matter. It should be noted that sponsor support is dependent on willingness and the ability to pay contributions.	
Q09.	We cannot answer the first part of this question without knowing how the holistic balance sheet will be used. It would, however, appear reasonable for the value of limited conditional sponsor support to be included separately if it is to be calculated. We also reiterate our concerns about the holistic balance sheet as elements of it may be unreliable and could give a misleading impression of the financial position of an IORP.	
Q10.	We have concerns about the proposed approach, and consider that any further guidance would be otiose.	
Q11.	It is not possible to answer this question properly without knowing how the valuation of sponsor support will be used. The proposed approach might appear sensible and relatively straightforward but it is likely to have limitations and may not be reliable in all circumstances and could result in governing bodies of IORPs misunderstanding the strength of the sponsor support. We also note that the approach does not take into account the relative sizes of the IORP and the sponsor.	
Q12.	It addresses concerns about complexity but does not address concerns which we made about the reliability of the information.	
Q13.	The relative sizes of the IORP and the sponsor is a significant item which does not appear to have been addressed.	
Q14.	IORPs may not wish to place a maximum value of sponsor support but in some cases are	

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	likely to want to have an understanding of the maximum support although this might not involve quantification. The information might be helpful in supporting decisions on matters such as contribution plans and investment strategy.	
Q15.	We do not have any suggestions. Industry experts would be best placed to advise on this. We note, however, that bank lending is typically short term while IORP liabilities stretch out many more years.	
Q16.	Not answered	
Q17.	Not answered	
Q18.	We note that the financial information is averaged over the previous three years which means that the current valuation of sponsor support is based on the financial position of the sponsor two or more years' previously. This may not be a reliable indication of the future.	
Q19.	Not answered	
Q20.	Not answered	
Q21.	For a QIS the periods do not appear unreasonable for an average IORP although in practice the period will depend on the size of the deficit as well as the sponsor strength. However using current credit assessment techniques to quantify willingness and ability to pay over the periods outlined, or indeed over much shorter periods,	
Q22.	We do not consider that the calculations should be based on the willingness to pay as this can change over a short time, especially when there are changes in the management of the sponsor. We support affordability as it may be more appropriate for the sponsor to invest in the business rather than in the pension scheme.	
Q23.	Not answered	
Q24.	While the probabilities might not appear to be unreasonable for a QIS it should be noted that they do not allow for increasing rates of default probability over time.	
Q25.	We note that the approach is a simplification and does not reflect yield curves.	
Q26.	A disadvantage of this approach is that it could underestimate the value of sponsor support in many cases. This is an example of a significant limitation of using a simplified approach.	

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Q27.	If such support is likely to be available then calculating it would seem appropriate. It will be important to communicate the legal basis of any such support.	
Q28.	Guidance might be helpful and might result in consistency of approach, to the extent that this is relevant to the purpose of the exercise.	
Q29.	We have not identified other reasons.	
Q30.	Not answered	
Q31.	The analysis might usefully take account of the relative size of the sponsor and the IORP and also the priority of the IORP on the default of the sponsor.	
Q32.	There may be but we have not identified any.	
Q33.	Not answered	
Q34.	Not answered	
Q35.	Not answered	
Q36.	The average financial strength of an industry could be determined on a collective basis using an appropriate average of participants. However, for an industry wide IORP care would need to be taken to ensure that the approach would be appropriate for the subset of the industry participating in the IORP.	