

**Comments Template on
Consultation Paper on Further Work on Solvency of IORPs**

**Deadline
13 January 2015
23:59 CET**

Name of Company:	GE PTL GE Pension Trustees Limited	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-14-040@eiopa.europa.eu . Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Consultation Paper on Further Work on Solvency of IORPs.</p>		
Reference	Comment	
General Comment	<p>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).</p> <p>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</p>	

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	<p>pension funds.</p> <p>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).</p> <p>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.</p>	
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Q5	<p>Do stakeholders think that unilateral rights (or obligations) of an IORP to terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk should be the basis for a definition of contract boundaries for IORPs? Are there cases where such rights (or obligations) should be the basis for a definition of contract boundaries for IORPs even though they are not unilateral rights (or obligations) of the IORP, but can be exercised unilaterally or jointly by other parties (possibly together with the IORP)?</p> <p>The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk. These powers may be set out under the IORP's governing documentation or, in some cases, be provided through overriding local legislative requirements.</p>	

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Q19	<p>Are there additional rights of the IORP or another party (unilateral or not) which should be considered in the definition (see section 4.2.4)?</p> <p>The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk. These powers may be set out under the IORP's governing documentation or, in some cases, be provided through overriding local legislative requirements.</p> <p>The proposed definition of contract boundaries also fails to take account of the fact that cash-flows relating to future obligations may be terminated in other circumstances, such as a member</p>	

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	deciding to leave the scheme or the death of a member. This means that if future liabilities are included in the holistic balance sheet, IORPs may materially overestimate those liabilities.	
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Q36	<p>Legally enforceable sponsor support Do stakeholders agree that at the EU level, there should only be a principle based approach to valuing sponsor support with the specifics being left to member states/supervisors and/or IORPs?</p> <p>Were an EU-level approach to valuing sponsor support to be taken, this should be principles based only, with the local supervisor left to determine the detail of how any valuation is undertaken, if one is needed in the absence of being able to count sponsor support as a balancing item. Any such principles need to be able to flexibly deal with the practical issue of assessing</p>	

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	<p>sponsor support in the case where the IORP has a number of participating employers within the same corporate group and/or the IORP is provided with either direct or indirect support from the wider group (for example, via intercompany guarantees).</p>	
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Q39	<p>What is the general view of stakeholders with regard to sponsor support as a balancing item?</p> <p>As noted in the General Comment section, we do not believe that the introduction of the HBS concept outlined in the consultation paper provides any demonstrable benefits to either the managers of the IORP or to the members themselves.</p> <p>However, in the event that the HBS is imposed by the EU, the use of Sponsor Support as a balancing item is essential to the proportionality of any solvency framework for IORPs. Further, our view is that this approach should be used in all cases. Those managing IORPs and national competent authorities can then consider this in the context of risk management and any risk-based supervisory response.</p> <p>Any assessment of sponsor support needs to be both pragmatic and proportionate, in the context of the potential complexity of many corporate group structures. This is especially the case for corporate entities operating across a number of countries, even if the IORP itself only covers employees in a single country.</p>	
Q40	<p>Which conditions should apply for sponsor support to be treated as a balancing item?</p> <p>As noted in the General Comment section, we do not believe that the introduction of the HBS concept outlined in the consultation paper provides any demonstrable benefits to either the managers of the IORP or to the members themselves.</p> <p>However, in the event that the HBS is imposed by the EU, sponsor support should be treated as a balancing item where there is clear evidence available to those managing IORPs and national</p>	

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	<p>competent authorities that the value of the legally enforceable sponsor support is greater than any potential shortfall in the HBS (however that is assessed) and/or where performing a more detailed calculation of the value of sponsor support would be disproportionate to the net benefit of such an assessment.</p> <p>There will need to be a range of conditions available to assess eligibility of sponsor support as a balancing item, reflecting the particular circumstances of each country and the different characteristics of IORPs, for example those in the not-for-profit sector, IORPs with multiple participating employers and also to deal with cases where the sponsor stands behind several IORPs (as is the case for the GE arrangements in the UK).</p> <p>As such, it should be left to national supervisors to determine the criteria and metrics to be used in assessing eligibility for treating sponsor support as a balancing item, in the context of local legislative, economic and regulatory circumstances.</p> <p>In the UK, it may be possible to use probabilities of default/insolvency, such as those derived by the Pension Protection Fund (PPF) for the purposes of determining annual PPF levies, in order to assess the strength of sponsor support, which as suggested could form a pragmatic approach for establishing the balancing item requirement.</p>	
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Q44	<p>Should considering a pension protection scheme as a balancing item be restricted to cases where a pension protection scheme protects 100% of benefits or is it appropriate to allow for the reduction in benefits in case of sponsor default where there is a pension protection scheme in place?</p> <p>The presence of a pension protection scheme implies that members' benefits are protected to the</p>	

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	degree determined by individual Member States having regard to European legislative requirements and case law. This adds to the argument that work necessary to assess elements of the HBS should be proportionate and, in effect, the minimum necessary to assist those managing and supervising IORPs in understanding and managing the risks. These are matters that should be determined by each Member State against the backdrop of its own supervisory regime and the comparative importance of second pillar retirement provision.	
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Q57	<p>Do stakeholders agree that a simplified one-size-fits-all approach for the calculation of maximum sponsor support is not possible and so the best approach is the proposed principles-based approach for including sponsor affordability? If not, please explain.</p> <p>Yes, we agree that a one-size fits-all approach for determining the value of sponsor support for an IORP is not possible. We would also emphasise that any assessment of sponsor support needs to be both pragmatic and proportionate, in the context of the potential complexity of many corporate group structures.</p> <p>Any principles-based approach therefore needs to be able to flexibly deal with the practical issue</p>	

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	of assessing sponsor support in the case where the IORP has a number of participating employers within the same corporate group and/or the IORP is provided with either direct or indirect support from the wider group (for example, via intercompany guarantees)	
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Q72	<p>Components of supervisory framework If it was decided to establish EU capital/funding requirements as part of pillar 1, would there in the stakeholders' view be a role for the holistic balance sheet? Please explain why and, if yes, what that role should be.</p> <p>No. We strongly reject the idea of establishing EU capital/funding requirements for IORPs. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants. Amending these has associated costs (both initial and ongoing) and no demonstrable additional benefit. Indeed, there is significant risk that members of IORPS will receive lower benefits than would otherwise be provided to them under</p>	

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	the current framework. Any plan to harmonise regimes is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU.	
Q73	<p>Do stakeholders believe that the holistic balance sheet should be used as a risk management tool as part of pillar 2 requirements? Please explain.</p> <p>IORPs should be able to develop risk-assessment and risk-management tools that are appropriate to the specific circumstances of their arrangements, including the specific circumstances of their sponsoring employer. At an EU-level, any requirements under pillar 2 should be principles-based and should not stipulate the HBS as the only appropriate risk management tool, as there may be more other, more suitable tools available to different IORPs.</p>	
Q74	<p>Do stakeholders agree that the outcomes of a pillar 2 assessment should be publicly disclosed as part of pillar 3 requirements?</p> <p>No, public disclosure of the outcomes of a pillar 2 assessment should not be a requirement. This should be restricted to discussion between the IORP, any participating employers and, if necessary, with the local regulatory authority.</p> <p>The HBS is complex and it is difficult to see how its disclosure would facilitate members making any informed decisions.</p> <p>Disclosure also risks the information being misunderstood and mis-used, with potential adverse implications for share prices and, in turn, long term investments, growth and job prospects in the EU.</p>	
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Q96	<p>Do stakeholders agree that IORPs should be required to submit a recovery plan if capital/funding requirements are not met or should more specific supervisory responses be specified on the EU level? Please explain.</p> <p>Any requirements set at an EU level on supervisory responses should be purely principles-based. The detail of how supervisory responses will be implemented (which may include, but is not limited to, submitting a recovery plan) should be determined by the relevant national supervisor or regulator. More detailed action should not be specified at an EU level as a one-size-fits all supervisory response is unlikely to capture all of the key variables of the local environment in which IORPS operate.</p>	

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Q97	<p>What is the view of stakeholders on the potential impact of a possible future European prudential framework for IORPs on existing contractual agreements and national social and labour law?</p> <p>We believe the impact of a possible future European prudential framework will be significant if applied to existing schemes and will have a significant adverse effect for long term investment growth and job prospects. We therefore wholeheartedly support the use of grandfathering to reduce the impact - the new requirements should not apply to either the accrued rights or future rights under any scheme established before any such rules potentially come into force.</p> <p>Even if grandfathering does apply, we also believe the impact will be significant for DB pension schemes still open to future accrual such as the GE schemes as we believe it is likely to force employers to close these DB schemes, which is not in our view in the interests of current pension fund members.</p>	
Q98	<p>In the stakeholders' view is there scope for transitional measures in order to mitigate the potential impact of a possible EU prudential regime on existing contractual agreements and national social and labour law?</p> <p>In the absence of grandfathering then we strongly support the use of lengthy transitional periods to reduce the impact of any future possible EU prudential regime. This transitional period should be determined by the relevant national supervisor or regulator and should also allow for the situation of the sponsoring employer – ie stronger employers should be able to apply a longer transition period, consistent with recent statements from the Pensions Regulator in the UK about recovery plans. This will allow IORPs, investment markets and labour markets to adapt to a new framework and develop appropriate responses in as cost-efficient a manner as is possible.</p> <p>Any such transitional measures need to be both pragmatic and proportionate, in the context of the complexity of many IORPs and the nature of the sponsor covenant support for the IORP. The GE arrangements, for example, are supported by a large number of participating employers and wider group support. Any such transitional measures should be able to practically allow for such features.</p>	

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Q111	<p>Possible simplifications Do stakeholders agree that there is scope for simplifications with regard to drawing up the holistic balance sheet? Which simplifications would you consider most important and in which situations?</p> <p>We believe that the current UK regime copes well with pension funds as complex as the GE schemes and as such we do not believe the HBS will lead to any improvements in IORP governance or additional benefits to members.</p> <p>We re-emphasise that, if the HBS is to be imposed on an EU-wide basis, the HBS could be significantly simplified if the principles of proportionality and the concept of 'a balancing item' are used effectively in developing the specification for a HBS – this applies most directly to an IORP's ability to recognise the full value of sponsor support as a legitimate source of funding for retirement provision.</p>	

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