

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

Company name:	BlackRock	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. <i>Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the left and by inserting the word Confidential.</i>	Public

The question numbers below correspond to Consultation Paper No. 06 (EIOPA-CP-11/006).

Please follow the instructions for filling in the template:

- ⇒ Do not change the numbering in column "Question".
- ⇒ Please fill in your comment in the relevant row. If you have no comment on a question, keep the row empty.
- ⇒ There are 96 questions for respondents. Please restrict responses in the row "General comment" only to material which is not covered by these 96 questions.
- ⇒ Our IT tool does not allow processing of comments which do not refer to the specific question numbers below.
 - If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies.
 - If your comment refers to parts of a question, please indicate this in the comment itself.

Please send the completed template to CP-006@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).

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Question	Comment	
General comment	<p>BlackRock is pleased to have the opportunity to respond to the EIOPA Call for Advice on the review of Directive 2003/41/EC on Institutions for Occupational Retirement Provision (IORPs). We are deeply concerned about the financial future of European pensioners. BlackRock manages around €282 billion of assets for more than 1,400 European pension schemes, including defined benefit (DB) schemes, defined contribution (DC) schemes and 67 national pension reserve funds, in a number of European countries including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, Sweden, and the UK.</p> <p>We summarise our views on the Call for Advice below and include more detailed comments in our attached response.</p> <p>BlackRock recommends that the European Commission carefully considers the very real impact of the holistic balance sheet approach on Europe's pension schemes and pensioners. Given the diversity of pension arrangements between employers and employees across the EU Member States, we believe that a comprehensive harmonised approach is neither appropriate nor desirable for European pensioners. A common methodology, whether based on the holistic balance sheet approach or alternative approaches, would only be appropriate for those pension funds wishing to operate on a cross border basis.</p> <p>BlackRock is also concerned that the proposed measures do not take into account the different mechanisms that already exist in a number of Member States. In some countries, such as the UK and Netherlands, the level of security is already very high. Additional regulatory requirements would result in unnecessary compliance costs without commensurate benefits for pensioners.</p> <p>Substantial differences exist between IORPs and life insurance companies. Consequently, we do not believe that it is appropriate to apply similar prudential treatment to IORPs and life insurance companies. The application of elements of the Solvency II regime on pension schemes would substantially increase funding requirements for pension funds. The administrative burden and financial costs would also impact significantly investment performance, particularly for smaller and medium-sized IORPs, reducing considerably the level of benefits for pensioners.</p> <p>Finally, the application of solvency II to pension funds would discourage pension schemes to invest in equities making it harder for European companies to raise capital.</p>	

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BlackRock is one of the world's preeminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional and retail clients around the world. As of 30 September 2011, BlackRock's assets under management totalled €2.46 trillion across equity, fixed income, cash management, alternative investment and multi-asset and advisory strategies including the industry-leading iShares® exchange traded funds. Through BlackRock Solutions®, the firm offers risk management, strategic advisory and enterprise investment system services to a broad base of clients with portfolios totalling more than €7.35 trillion. Our client base includes corporate, public funds, pension schemes, insurance companies, third-party and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals. BlackRock represents the interests of its clients by acting in every case as a fiduciary. It is from this perspective that we engage on all matters of public policy. BlackRock supports regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analyses, preserves consumer choice. BlackRock is a member of European Fund and Asset Management Association ("EFAMA") and a number of national industry associations¹ reflecting our pan-European activities and reach.

¹ Association of British Insurers (ABI), Association Française de Gestion (AFG), Assogestioni, Association française des Sociétés financières (ASF), Association suisse des institutions de prévoyance (ASIP), Bundesverband Investment and Asset Management (BVI), Dutch Fund and Asset Management Association (DUFAS), Eumedion, Financial Reporting Council (FRC), Irish Association of Fund Funds (IAPF), Irish Funds Industry Association (IFIA), Investment Management Association (IMA), Inverco, and National Association of Pension Funds (NAPF)

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BlackRock: General Comments to EIOPA Call for Advice on the Review of the Institutions for Occupational Retirement Provision Directive (IORPD)

BlackRock has focused its comments on the sections in the Call for Advice on security mechanisms and information to members/beneficiaries. We summarise our views below.

Absence of methodological detail and impact assessment

We find it difficult to respond in any meaningful way to one of the central recommendations of the consultation, that of new quantitative requirements and the potential role of a holistic balance sheet approach. A technical consultation with such potentially far-reaching consequences for a number of national pension systems should not be undertaken without providing both a detailed overview of how the holistic balance sheet might operate and an impact assessment.

Whilst we support a framework which sets out the basis on which IORPs expect to meet their commitments and the risks inherent in them, we believe there are serious problems with implementing EIOPA's proposals. These include but are not limited to the following points:

- How does one assess the strength of the sponsor covenant when the sponsor is "not-for-profit" and/or has no credit rating?
- How does one account for:
 - multi-employer schemes
 - local back-up or bail-out arrangements, such as the Pension Protection Fund in the UK
 - quasi/local government type institutions
 - collective DC schemes?
- How will different accounting treatment for pension liabilities be accommodated?

Questionable benefits in terms of increased use of cross-border pension arrangements

Pension schemes are typically domestic and subject to very diverse systems, liabilities and traditions of pension provision across EU Member States. A common methodology would therefore only make sense for pension funds that wish to operate on a cross border basis.

We do not believe that EIOPA's recommendation will encourage greater use of cross border pension schemes in

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the EU. Even if common solvency rules are adopted by EU pension funds, other factors, such as differing national tax treatments, will still represent a greater obstacle to cross border arrangements.

Some countries already have established regulations in place governing pension security. The danger is very real that IORPs in those countries will face considerable costs in complying with new regulations without any commensurate benefit accruing in terms of improved safety for members. IORPs are typically much smaller organisations than insurance companies and so will bear a disproportionately higher compliance cost which will ultimately be passed on to members.

BlackRock therefore recommends that regulatory focus be directed at identifying minimum requirements in order for schemes to qualify for cross-border distribution rather than attempting to apply comprehensive new requirements to a wide and diverse range of existing national schemes.

Solvency II-based approach is inappropriate for IORPs

EIOPA has been asked to answer relatively narrow questions about the incorporation of elements of the Solvency II Directive into the IORP Directive. BlackRock recommends that EIOPA questions the European Commission's assumption that such an approach is appropriate for IORPs.

Pension funds are fundamentally different from insurance companies. This makes the application of elements of Solvency II to pension funds inappropriate. The differences include but are not limited to:

Insurance companies	IORPs
Insurance products can be bought through a variety of distribution channels (i.e. brokers, agents, bancassurance etc.) and are offered to the public at large.	Pension benefits are restricted to the employees of a company that are members of an IORP. As such, pension arrangements are included in the contract of employment and are conditional on employment.
The primary motivation is profit.	IORPs are not for profit institutions. They operate for the ultimate benefit of employees and are managed to minimise the cost of pension provision to the employer.

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Investment decisions are guided typically by return on capital and solvency motivations.

Investment decisions are guided by the will to meet the pension commitments to employees over the long term in a relatively predictable manner. Hence, IORPs tend to take a longer term investment view and have longer portfolio duration.

Solvency rules provide security to policies holders.

Member's benefits are already strongly protected by the sponsor employer covenant in some countries (e.g. in the Netherlands by the FTK and in the UK by the work of the Pension Regulator and by the Pension Protection Fund).

Almost 5,000 insurance companies operate in Europe on a cross border basis.²

There are around 140,000 IORPs in Europe of which only 84 are cross-border.³ The median size of pension funds is far smaller than that of insurance companies.

Finally, security should not be seen as being synonymous only with solvency; governance or supervisory review process and information disclosure to supervisory authorities and to beneficiaries also have a crucial role to play.

Negative impact on sponsor support for IORPs

We share the European Commission's objective of safer pension provision. However, we are concerned that the application of some elements of Solvency II via the holistic balance sheet approach will increase, significantly, funding requirements for pension funds and unnecessarily penalise European pensioners.

Research carried out by the NAPF shows that the 'holistic balance sheet' approach would increase substantially the cost of providing DB pensions in the UK. The shift to valuing Technical Provisions on a risk-free basis in order to obtain the best estimate of liabilities would, for example, increase, on average, Technical Provisions by 27% in the UK. This would equate to an approximate €337 billion increase in scheme funding requirements just for the UK.

² Source: CEA, the European insurance and reinsurance federation (<http://www.cea.eu/uploads/Modules/Publications/key-facts-2011.pdf>)

³ Source: EIOPA (<http://www.efrp.org/LinkClick.aspx?fileticket=8liNE8ylzA%3D&tabid=1402>)

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Such a significant increase in funding requirements for European pension funds would have a number of consequences:

- The additional funding demands on sponsoring employers would deprive them ex ante of an amount that could be used to tackle ex post problems. This would weaken these companies, increasing their insolvency risk and undermining their credit ratings. The ‘sponsor covenant’ would be weaker accordingly.
- The resulting financial burden would reduce the ability of the sponsoring employer’s to make investments and create jobs.
- Employers would be forced to reduce or cease providing pension benefits to their employees, resulting in less generous benefits for scheme members. We would see a further shift from DB to DC pensions, increasing the number of members with a greater exposure to investment risk. A Solvency II-style regime might actually undermine pensions *security*, as well as reducing *adequacy* – contrary to the Commission’s objectives as set out in the July 2010 Green Paper *Towards Adequate, Sustainable and Safe European Pensions Systems*.

BlackRock believes this outcome to be especially inappropriate at a time when European pensioners are being asked to take greater responsibility for their own financial futures and Member States are implementing greater budgetary discipline. It is vital to find the right balance between a high level of security for all occupational schemes and European citizens’ access to complementary occupational and private pensions.

Negative impact on investment

Solvency II will affect pension funds even more fundamentally through the introduction of a capital charge associated with holding risk assets. In the past, regulatory regimes were relatively insensitive to asset risk. This was unrealistic and led to a plethora of responses from national regulators.

The proposed Solvency II regime will allow pension funds to calculate the required solvency capital, including that associated with asset risk, either by reference to an internal model for which they need to seek regulatory approval or through the use of standard formulae. Most pension funds, particularly in early years, will use these standard formulae. Unfortunately, the relative risk asset charges are highly likely to discourage pension funds from holding most non-government risk assets, including long-term credit, structured credit, equities and alternatives. In order to match their risk-free liabilities, pension funds will therefore shift investments out of equities and other return-seeking assets and into bonds and other risk-free investments. The European Private Equity and Venture Capital Association (EVCA) estimates that this could trigger a reduction of about 5 per cent of total assets invested in European shares and that this would translate to a €750 billion loss to European stock markets.

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	<p>This, again, is likely to be less capital available to companies for investment, lower growth prospects in Europe, and reduced pensions for European pensioners.</p> <p>BlackRock also fears that this will lead to increased pro-cyclicality. In times of stress, IORPs will be compelled to sell non-government risky assets to raise cash and find high quality liquid bonds to meet the capital requirements. This will make it even more difficult for companies to raise capital in Europe.</p> <p><u>Enhanced information to members/beneficiaries</u></p> <p>With regards to information to members/beneficiaries, we welcome EIOPA's emphasis on transparency and disclosure, particularly as the shift towards DC pension systems accelerates. We believe the idea of an adapted Key Investor Information Document (KIID) within the scope of the IORP directive is an interesting and potentially valuable development, even if a KIID for pensions would be a very different kind of document compared to a KIID for investment funds. However, the information provided to individuals should be fairly simple and digestible. BlackRock is of the view that the information document should primarily focus on the engagement of members towards pensions in general.</p>	
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