

Comments Template on Discussion Paper on Sponsor Support Technical Specifications		Deadline 31 October 2013 18:00 CET
Name of Company:	Pensioenfederatie	
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 in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to DP-13-001@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
Reference	Comment	
General Comment	<p>First and foremost we would like to express our appreciation to EIOPA for granting more time to react on this discussion paper. We are however concerned about the intended EIOPA working program in 2014. We consider it too ambitious and are of the opinion that in order to provide good analyses and sound calculations, sufficient time is required for reaching the appropriate conclusions from all preparatory works.</p> <p>We provide further general comments, some of them reflecting the essence of more detailed answers to the questions in the discussion paper, below. Issues we would like to raise are:</p> <ol style="list-style-type: none"> 1. Serious doubts on suitability of HBS in practice 2. Lack of adequacy in assessing transparency of pension promises 3. Complexity of approach for small and medium size IORPS's 4. Reduction of comparability because of various elements raised 	

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	<p>5. Lack of clarity on suitability of sponsor support in specific situations 6. Adverse macro-economic effects of capital requirements and sponsor support</p> <p>ad 1) In spite of our serious doubts on the suitability of the HBS approach in practice we agree with EIOPA's view that steering instruments (e.g. Sponsor Support) and adjustment mechanisms available to IORPs should be taken into consideration when developing a revised supervisory framework for IORPs. These constitute a crucial differentiator between IORPs and the pension arrangements they execute on the one hand and insurance companies and their insurance products on the other. However, our strong objections with regard to the HBS-approach, as stated by us in earlier stages, remain and we question its viability. The HBS is not a suitable instrument because of its high degree of complexity, which may result in blurred and unclear outcomes. By the same token, inappropriate simplification may also lead to false results and may not properly reflect the situation for countries like the Netherlands. In view of many differences in the Member States with regard to their valuation methods, steering mechanisms and pension guarantee schemes, we expect a long period of necessary studies and analysis before some kind of convergence can be achieved in the future. In general, unless very good tools are provided for simplifying the iterative calculation process, the calculation of the loss absorbing capacity of the sponsor support to obtain the net SCR will, although simplified, remain very burdensome.</p> <p>ad 2) The HBS is not an adequate instrument for the assessment of the transparency of a pension promise. It assesses the solvency of the pension institution that executes the pension contract between the employer and his employees. In the case of Dutch IORPs the approach ignores the nature of the "best effort" commitment taken up by the IORP. Therefore, we consider the HBS as a very complicated way to improve transparency of pension promises by a sponsor to its employees in the context of social and labour law rather than a method for harmonizing prudential legislation for IORPs in Europe. Alternatives for increasing transparency of pension promises in the context of social and labour law could be the adoption of common terminology and labels for every pension promise indicating which stakeholder bears which part of the several risks involved.</p>	

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	<p>ad 3) For smaller and medium sized IORPs, which constitute the majority of IORPs in Europe, the HBS is neither suitable nor feasible because of its complexity. To allow for the differences between IORPs across Europe, the harmonisation of the national prudential frameworks should be principle-based, albeit with more guidance on the criteria to be met. This will enable small and medium sized IORPs to meet the new requirements, thus providing methodologies these IORPs can afford and understand in order to measure and manage their risks appropriately. In this respect we welcome the attempt made in the form of the suggested Alternative Approach for the valuation of sponsor support. Nevertheless, we expect that, even with this Alternative Approach, the HBS will prove too complex for small and medium size IOPRs and it remains to be seen whether it will generate correct results.</p> <p>ad 4) Whereas one of the goals of the application of the HBS is to enhance comparability of IORPs across Europe in the context of supervision, we have identified various elements in the discussion paper that will impact this aim detrimentally, i.e.</p> <ul style="list-style-type: none"> a) local accounting rules have an impact on elements like income cover and asset cover; b) national legislation is the main determinant for recoveries; c) different methods for valuation of the sponsor support and the freedom to determine the assumptions (leading to subjectivity); d) the periods for additional payments by the sponsor (in context of sponsor support) and the sponsor support as such can be overruled/limited by national legislation.5) It is still not clear whether the sponsor support element is suitable in many specific situations <p>ad 5) If an HBS were to be used:</p> <ul style="list-style-type: none"> • We would agree that sponsor support has a role and we welcome the general principle of a stochastic model dealing with assets, sponsor support and liabilities in a coherent way. • We would also welcome attempts to achieve simplifications in order to enable small and medium sized IORPs to calculate the HBS. In this respect we would like to add that such simplifications will in our view only be adequate if their results will be in line with the results of stochastic valuation (in particular taking account that stochastic valuation is a “general principle”). In this respect we would like to draw EIOPA’s attention to the fact 	

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that the results from the alternative approaches in the Discussion Paper do not seem comparable in line with the results from stochastic valuations used.

- Nevertheless we point out that there still are issues. All situations different from a 1(sponsor) – 1 (IORP) – 1 (pension promise) – 1 (country) remain very unclear and complex in terms of data (access and availability of information) and methodology (e.g. splitting numbers on assets, liabilities, income, shortfalls) and in very complex situations (e.g. subsidiaries of multinationals, industry wide plans). It may also lead to a confidentiality issue as sponsor financial data will have to be used. How to apply the alternative approach, mainly the determination of the income/asset cover ratio, but also how to react in situations of shortfalls (T-A, SCR), over-/underfunding in the context of:
 - Industry-wide plans?
 - Multi-employer plans?
 - Local subsidiaries of multinational groups?
 - Companies who transfer the profit to the mother company?
 - Non profit organisations?
 - Public authorities?
 - Semi-Independent public agencies?

In addition, attention should be paid to relevant interdependencies (for example the priority order) between sponsor support and certain other elements of the HBS such as discretionary benefits and ex post benefit reductions.

The Alternative Approach proposed in this discussion paper offers a potential solution by introducing a credit rating like approach for non rated companies. Nevertheless, we observe a link with credit ratings which are predominantly based on US data and dependent on the credit rating office used. They reflect liquidity/illiquidity instead of solvency/insolvency. We therefore question whether these data are really suitable to determine the probabilities of default in the context of a European IORP II regulation. Admittedly, if a full valuation of sponsor support is opted for, there is not much alternative to determining the probability of defaults. We are not sure about the value of the outcome and whether it is worth taking this route, particularly considering the economic circumstances prevailing when sponsor support is needed. During

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economic turmoil, if sponsor support is needed, the credit risk of companies tends to increase and assumed credit ratings of the past can quickly prove outdated.

Furthermore, the Alternative Approach only takes into account the current deficits of an IORP, but not the possibility of future deficits and the consequences thereof. This will not only lead to an underestimation of the sponsor support for IORPs which have deficits, but will also have the consequence that IORPs which do not (yet) have deficits will not be able to include sponsor support on their holistic balance sheets. This could be a main reason for the fact that the results of the alternative approach are not in line with the results of the stochastic valuation methods used. In this respect it is in particular relevant that stochastic valuation is by definition forward looking, and as a consequence takes account of “expected” future deficits when valuing the holistic balance sheet of an IORP.

In the Netherlands, multiple definitions of the cost of new accrual (e.g. with or without buffer, which discount rate) exist. It is unclear which definition should be used. Moreover it is not always possible to separate the cost of new accrual and the excess contribution unambiguously in order to include this excess contribution in sponsor support. Often the excess contribution has a specific purpose (such as a contribution for future indexation) and is as such not sponsor support towards current benefits. Or smoothing of the contribution level is applied, thus establishing the cost of new accruals at an average market level cost. Depending on the circumstances, including the sponsor support can help improving the financial situation of the IORP.

ad 6) Elements like sponsor support and the capital requirements may have a large impact on the macro economy. If the sponsor support in the sponsor’s balance sheet was to be mirrored in the balance sheet of the sponsor, this could push employers into reluctance in offering a pension promise. We also worry about derisking IORPs portfolios by moving from equities and related assets to risk free fixed income securities. The latter not only impacts significantly on occupational pension accrual in Europe, but also jeopardizes long term investing, economic growth and development (Europe 2020).

The questions have been answered supposing that the HBS is needed. As pointed out earlier we are not convinced of that need. Our major concern in this respect is the proportionality and

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	confidentiality regarding the financial situation of the employer. Furthermore, it does not suit multi-employers and is too open to interpretation.	
Q01.	<p>Q1: Should IORPs be provided with additional guidance for conducting a stochastic valuation of sponsor support?</p> <p>Yes. More guidance is needed on two levels:</p> <p>We would like to draw attention to the fact that some IORPs use deterministic calculations, whereas other pension funds use stochastic valuations. If IORPs are allowed to use different approaches it will be very difficult to compare the outcomes of the resulting HBS's.</p> <p>In the Netherlands, we need stochastic models (risk neutral framework) for the calculations. For smaller IORPs more guidance is needed on the concept of how to set up a risk neutral framework in which the different policies, including sponsor support, can be incorporated. Some simple Excel basics (plus possibly a risk neutral scenario set) may be helpful here. However, we would like to stress a point made before, i.e. this calculation method is far too complex for small and mid-sized IORPs. External expertise will be required to do the calculations, increasing the operational costs of these IORPs.</p> <p>Also, more guidance is needed in the choice of different parameters if the goal is to be able to compare results of various IORPs. Two identical IORPs with different model and parameter choices can have (completely) different outcomes. This difference might be falsely interpreted as a difference in the impact of new proposals, when it is not entirely clear where the differences come from. A standard set of assumptions may not be needed in future legislation, but may prove to be helpful for comparability within the context of a QIS. Therefore for any future QIS – if any – we recommend that a complete stochastic set is provided. This should also include guidance on how to combine non-market elements of the discount curve such as wage inflation, the ultimate forward rate, the countercyclical premium etc.) with a market-based risk neutral framework.</p> <p><u>Example 1:</u></p> <p>In practice, sponsor support payments in different countries are not based on holistic balance sheet parameters, but on balance sheets based on local accounting and reserving standards. If the goal is to be able to compare results, more guidance is needed on how the sponsor support payments should be calculated in a market consistent context considering the local accounting</p>	

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	<p>and reserving standards.</p> <p><u>Example 2:</u> Stochastic risk neutral valuations will be performed using monte carlo simulations. Sponsor support is very sensitive to certain assumptions such as maximum amount of sponsor support in certain sceario's and projection horizon. Guidance on these parameters will be necessary.</p> <p>In this context we would add that valuation of options can lead to inconsistent outcomes and fluctuations: valuation of one and the same option at different moments can lead to completely different outcomes, because the prices of options can fluctuate significantly over time. In addition the supervisory framework can have an impact on the valuation of options. More specific: currently the valuation is mainly driven by the current low interest rate environment. Is this approach robust in other economic circumstances? The introduction of an UFR leads to at least three issues:</p> <ul style="list-style-type: none"> • Valuation of contingent liabilities and assets requires stochastic valuation (like risk-neutral valuation), which is inconsistent with an adjusted yield (market) curve using an UFR. • The introduction of a UFR by a regulator that is to be used for setting up the HBS and thus also for valuing the options – including sponsor support – will have an effect on the volatility of the interest rate curve to be used and therefore also directly on the value of the sponsor support. • After applying a shock scenario sets are difficult to calibrate. 	
Q02.	<p>Q2: Should IORPs be provided with additional guidance for conducting valuations of sponsor support using either Simplification 1 or 2?</p> <p>Both simplifications 1 and 2 have been simplified to such an extent, that the outcomes for the value of sponsor support may not be very useful. Furthermore the simplifications have been set up in general, whereas the actual structure of sponsor support differs very much per country. Our suggestion is: the simplifications should be adjusted based on the above or be removed in combination with better guidance for the market consistent valuation. The simplifications were too general to be applicable for the Dutch situation.</p>	
Q03.	<p>Q3 In the stakeholders' view what role should the concept of maximum sponsor</p>	

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	<p>support play in the general valuation principles for sponsor support?</p> <p>In our view the calculation of maximum sponsor support has many drawbacks, as also stated by EIOPA itself in the discussion paper (see Paragraph 2.1): the variables and parameters given so far are arbitrary and the specifications in the QIS for valuing these maxima are not suitable for many types of organisations including multi-employer schemes. The Netherlands has many of those. Furthermore the added value of calculating maximum sponsor support, in addition to the calculation of “normal” sponsor support, is not clear at all. As a result the concept of maximum sponsor support should not play a role in the general valuation principles for sponsor support. In addition, we would like to draw attention to the fact that in the future all pension contracts should be ‘complete’, indicating what a sponsor will contribute in which kind of funding situation. Note: 25% of wages 20 in table 1 is 5, and not 4</p>	
Q04.	<p>Q4: Is wage an appropriate additional measure for estimating the maximum amount of sponsor support? If so, please explain why? Are there any other measures which could be used to assess the maximum sponsor support?</p> <p>First of all we would like to refer to our answer on Question 3. Given our view that the calculation of maximum sponsor support should not play a role. It does, in our opinion, not make sense to investigate additional measures to estimate the maximum sponsor support.</p> <p>If EIOPA nevertheless considers further investigation of additional measures for calculating sponsor support, then wage may indeed be a useful additional measure to look at, especially because the sponsor support is defined in terms of salary in many cases in the Netherlands. However, it may be difficult to retrieve all the statistics, if corporations are non listed companies, which is the case in some countries.</p> <p>In general, we agree with EIOPA that there is no one and only measure to assess maximum sponsor support, as each situation is different. In the end, the assessment of maximum sponsor support should be the responsibility of the IORP and the local supervisor.</p>	
Q05.	<p>Q5: Are stakeholders comfortable with the concept of linking default probabilities, credit ratios and sponsor strength?</p> <p>In general yes. We welcome this step towards a workable solution for small and medium sized IORPs. However we have the following concerns:</p> <ul style="list-style-type: none"> • Getting access to the relevant data needs further investigation. More complex situations different from a 1-1-1-1 situation (1 sponsor -1 IORP -1 promise -1 country) remain very 	

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	<p>burdensome. For IORPs managing industry-wide plans, or working in several sectors of which there are many in the Netherlands, this alternative is not workable and as such further investigation is needed.</p> <ul style="list-style-type: none"> • In respect of the proposal of EIOPA that IORPs should assess the strength of the sponsor by using financial information measuring the extent to which liabilities are covered by assets it should be taken into account that this may not always be appropriate due to possible liquidity constraints (e.g. the capital of a sponsor may be locked into non-liquid assets) or competing claims on the available capital of the sponsor. • The credit ratings are used to link the probabilities of default to the credit ratios and the sponsor strength. As mentioned in Annex 2 of the document, the use of these credit ratings include some weaknesses (US focussed, based on historical information, results depending on the choice of the credit agency). • It is important to keep in mind that there can be a big difference between defaulting on issued bonds (for example not paying interest amounts due as a result of liquidity constraints) and being insolvent (and as a result not being able to make sponsor support payments). The seniority of pension benefits is different from that of corporate bonds and may vary between Member States. • One should always be aware that the technical value of sponsor support might not be equal to the legal or economical value. • This can also be different in different countries. <p>It would be advisable to include as much explanation as possible to the methods used to come up with these linking tables.</p>	
Q06.	<p>Q6: Do stakeholders agree with exploring the possibility of including a standard table in the technical specifications that links credit ratios with default probabilities?</p> <p>Yes, although this should only be used as a suggestion to those IORPs seeking more possibilities to better include sponsor support in their valuation, and not as imperatives. IORPs should have the possibility to come up with their own models. We suggest a comply or explain principle in this respect.</p>	
Q07.	<p>Q7: Do stakeholders have other suggestions to derive default probabilities of the</p>	

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	<p>sponsor and to reduce reliance on credit ratings? The credit spread in the cost of funding of the sponsor could be examined as a possible measure.</p>	
Q08.	<p>Q8: Do stakeholders agree that timing of sponsor support reflecting the affordability of making additional payments could be an improvement to the general principles for valuing sponsor support? Although it is stated that national legislation can overrule the value of the sponsor support (e.g. a maximum as % of wages, or a cap), we believe it is not totally clear whether maximum periods as determined in national legislation can overrule these periods to value the sponsor support. It is very difficult to answer this question as long as there is no further information on the supervisory framework. Furthermore the corporate balance sheet itself will also change over time. As this effect is not being taken into account, the valuations exclude an important variable that impacts the future sponsor payments.</p>	
Q09.	<p>Q9: Do stakeholders think that limited conditional sponsor support should be valued and included on the holistic balance sheet? Should it be included separately? Yes, conditional limited sponsor support should be a possibility, but left to the discretion of the IORP whether to include it or not in its HBS. This would be recommendable in some cases where sponsor support is renegotiable in practice. To ensure the integrity of the HBS, including this separately can be considered in order to assure that it is clear that the entry is of another order than unlimited sponsor support Separate inclusion leads to better insight, however it is recommendable to have liabilities measured, both including the limited sponsor support and excluding the limited sponsor support. This provides valuable information with respect to the relation between sponsor support and loss absorbing mechanisms (conditional indexation).</p>	
Q10.	<p>Q10: Should more detailed guidance be provided in future technical specifications to value sponsor support that is subject to discretionary decision making processes? If yes, please explain in what way. Could the suggested detailed guidance also be applied to benefit adjustment mechanisms that contain discretionary elements? The technical specifications on the elements related to discretionary decision making (sponsor support, benefit adjustments, asset related decisions) were not totally clear. Further guidance</p>	

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	<p>would be appropriate.</p> <p>The options discussed can indeed be included as guidelines to a possible estimation of the conditional limited sponsor support. It could be left to the discretion of IORPs whether to actually use these methods or not, or to opt for an own estimation with sufficient explanation in prevalent cases.</p>	
Q11.	<p>Q11: Please provide your general comments on the alternative approach.</p> <p>We welcome this alternative approach. But at the same time we are concerned that this approach will not be widely usable in practice, because this method will only be applicable to IORPs with unlimited sponsor support since the calculation is based on the gap between financial assets and technical provisions. Furthermore the possibility of future deficits and the consequences thereof are not taken into account. This does not only lead to an underestimation of the sponsor support for IORPs which have deficits, but will also have the consequence that IORPs which do not (yet) have deficits will not be able to include sponsor support on their holistic balance sheets. And unlimited sponsor support is not always the case in all countries and with all IORPs, because policies or arrangements between sponsors and IORPs may exist that already define when and how much a sponsor should contribute.</p> <p>Furthermore additional attention should be given for a workable solution for more complex situations differing from the 1-1-1-1 situation (sponsor/IORP/pension promise/country) with IORPs covering industry-wide plans in particular. For Dutch pension funds for example the contribution usually depends on the participants demography and pension fund policy.</p>	
Q12.	<p>Q12: Does the alternative approach address the concerns raised during the previous consultation on the technical specifications?</p> <p>Not entirely, the main issue was that it is (at times) not possible to calculate a fixed number for sponsor support or maximum sponsor support. The alternative approach still results in a fixed number, so this issue is not addressed.</p> <p>All situations different from the 1-1-1-1 situation (sponsor/IORP/pension promise/country) remain unclear.</p> <p>The alternative approach might be (too?) burdensome for small and medium-sized IORPs, taking into account the many (7) stages involved and the level of sophistication needed to take these steps (using credit ratio techniques and sensitivity analyses).</p> <p>We are not convinced that the value of additional sponsor support available from other entities</p>	

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	<p>than the legal sponsor should be calculated, since from a legal point of view there is usually one agreement between an IORP and the main sponsor. In this agreement the main sponsor guarantees to the IORP the total sponsor contributions of all other group companies. Therefore separate calculations for sponsor support from other group companies seems needlessly complex and unnecessary. In this respect we would furthermore like to refer to our answer on Question 27.</p> <p>Also, the method of assessing the strength still is only a proxy towards the future ability of the sponsor to pay. The actual number will never be known since it depends on future economic developments and policies of the sponsor. The period over which sponsor support is relevant is too long to properly assess, since sponsor contracts sometimes can be adapted. The value calculated for sponsor support should always be part of a wider report in which a minimum value (could be 0 for IORPs with no legal contract for sponsor support) a maximum value (the full gap?) and the point estimate for sponsor support should be included. More guidance is needed on how EIOPA sees this point.</p> <p>Furthermore this Discussion Paper implies “explicit” valuation of sponsor support. This could provoke serious adverse effects in the annual accounts of the sponsor considering the provisions of IAS 19R. Confidentiality with respect to the financial situation of the employer is thus one of our big concerns.</p> <p>The alternative method still depends on specific financial information of the sponsor(s). We think a lot of IORPs won’t have the required access to this type of information.</p>	
Q13.	<p>Q13: Are there any areas that have not been addressed adequately enough?</p> <p>All situations different from the 1-1-1 situation (sponsor/IORP/pension promise/country): multi sponsor, multi plans, multinational, industry-wide, etc. remain unclear and/or very burdensome. Furthermore the possibility of future deficits and the consequences thereof are not taken into account in the Alternative Approach. This not only leads to an underestimation of the sponsor support for IORPs which have deficits, but will also have the consequence that IORPs which do not (yet) have deficits will not be able to include sponsor support on their holistic balance sheets. The proposal shifts the problem of maximum sponsor support to the problem of maximum recovery periods. In this respect it should be taken into account that these periods may not be suitable, as also stated by EIOPA itself (see Par. 4.3., 71.). This could be the case where national</p>	

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	supervisors or national regulation might intervene or where sponsor contributions are capped. What would be the consequence of calculation of results over a period of 200 years, taking into account that in the Dutch legislation the recovery period is limited to 15 years? Summarizing we agree with EIOPA (See 71.) that further analysis is needed on this matter in conjunction with the issue of supervisory responses.	
Q14.	Q14: Are IORPs still likely to want to calculate a maximum value of sponsor support (even if not required under the alternative approach)? If so, for what purpose? No, IORPs are not likely to still calculate a maximum value for sponsor support. In this respect we refer to our answer on Question 3.	
Q15.	Q15: Do stakeholders have other suggestions to adjust these ratios to cater for different sectors?	
Q16.	Q16: Does Stage 1 contain enough information and guidance for IORPs to calculate a credit strength that is proportionate for QIS purposes? Clear for a 1-1-1 situation, but wonder how to apply for this other situations, e.g. a sponsor with different pension promises organised via different IORPs all with a different funding level. We also wonder how to get access to accurate and complete information? As the Alternative Approach is developed to offer a solution for small and medium sized IORPs, it is important that information, definitions and tools are available. In this context we need some further clarification about: <ul style="list-style-type: none"> • Paragraph 54 : IORPs should calculate at least two standard credit ratios: who will define the ratios: IORPs ?, or will EIOPA define a list from which list the IORPs can use two ratios? Why could the choice of the ratios vary by industry? • Paragraph 57 : who will define the Table 2, EIOPA or the IORP? In these two paragraphs 54 and 57 it is not totally clear whether a standard formula will be provided. But even if so, IORPs should always have the possibility to come up with an alternative approach and base this on a comply or explain principle. Therefore it should be clear which criteria need to be met if an alternative approach is used.	
Q17.	Q17: Does Stage 1 contain enough guidance for IORPs to do their own calculations if they believe this is appropriate for them to do so? This is difficult to tell at this stage, but can only become clear when carrying out the calculations (e.g. in a future QIS). For the 1-1-1 -1 situation there might be enough guidance.	

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Q18.	<p>Q18: Are Income Cover and Asset Cover suitable credit ratios to use for Stage 1? Will the sponsor strength to determine the sponsor support value be publicly accessible information? It is not impossible that, based on the credit ratios income cover and asset cover, a big company sponsoring a big IORP might get a credit step weak, which carries the risk of impacting the sponsor's reputation and credibility.</p> <p>In respect of the proposal of using Asset Cover as credit ratio account should be taken that this may not always be appropriate due to possible liquidity constraints (e.g. the capital of a sponsor may be locked into non-liquid assets) or competing claims on the available capital of the sponsor.</p>	
Q19.	<p>Q19: Are the parameters used to determine sponsor strength in Table 4 appropriate? We cannot provide an answer to EIOPA on this question and wonder, whether EIOPA can further explain this question and whether EIOPA is sure about these parameters.</p>	
Q20.	<p>Q20: What other definitions of earnings or net assets could be used in sectors where the standard definitions are not appropriate? Other definitions may apply, but also under the other definitions the calculations will still be based on assumptions that are very subjective.</p>	
Q21.	<p>Q21: Are the periods shown in Stage 2 appropriate (bearing in mind this is for QIS work only, and not to determine a policy response)? What if national supervisors require the shortfalls to be supplemented over a certain period e.g. maximum 3 years? Would this overrule the periods in Table 6? Market consistency leads to high volatility and would be too burdensome for the sponsor and hence less stringent rules in terms of contribution periods are required. But what if these periods are overruled by local legislation? We will have a volatile market consistent approach combined with strict rules regarding contribution periods. This would according to us create a lot of pain in stressful periods.</p> <p>In this context it would be very useful to get a view on the length of the recovery periods in a future supervisory framework. We feel that in some cases the procedure may lead to much longer periods than the maximum period of 50 years. What is the consequence of such a result?</p>	
Q22.	<p>Q22: Do you agree that time periods for contributions for the QIS calculations for sponsor support should be based on affordability or should they be based on willingness/obligation to pay? Yes, but it seems to be very difficult to define affordability. What do we take into account? Gone</p>	

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	<p>concern or going concern? A company that plans to make investments for innovations might prefer the related investments above providing for sponsor support. This information is not visible in the accounts and often this is company information that is not disclosed.</p> <p>At least the obligation to pay should be taken into account.</p> <p>What if a period of 2 years results from this procedure and the legal length of the recovery period is 15 years ?</p>			
Q23.	<p>Q23: To what extent are there any IORPs whereby sponsor contributions cannot exceed certain limits (even if contributions are affordable)?</p> <p>Arrangements between IORPs and sponsors limiting sponsor support may exist. This could in particular be the case in Member States (for example the Netherlands) in which there is no legal obligation for sponsor support. In these situations the sponsor support will often be determined in agreements between the IORP and the sponsor, and these arrangements might provide for limits in respect of the premiums due or the future increases of premiums. Furthermore legal provisions providing for limits might exist in EU member states.</p>			
Q24.	<p>Q24: Are the annual probabilities of default appropriate for future QIS purposes? If not, why not?</p> <p>It seems strange that the assessment of a sponsor's strength will in part be determined by the existing gap, and that subsequently this strength leads to a high probability of default in this procedure. What if we consider a sponsor with good cashflows and prospects, that is simply much smaller than the IORP (maybe due to recent reorganisations)? This sponsor may be very well able to pay a small amount for a long period, with small probability that it doesn't pay this small amount.</p> <p>This procedure seems to result in a very big gap between "weak" and "very weak". This is not desirable, as the quality of the assessment will then become very important in this case. The default rates are taken as derivatives of the credit rates. The advantages and disadvantages for doing so are listed on page 46/47. Further investigation for suitable alternatives might be valid. The probabilities of default seem to be much higher compared to those used in the QIS exercise, and those used in the context of Solvency II. Why ?</p>			
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	AA 0.01% →	Very strong 0.1%	
	A 0.05% →	Strong 0.2%	
	BBB 0.24% → %	Medium strong 0.5%	
	BB 1.2% →	Medium 1.6%	
	B 4.175% →	Weak 4.5%	
	CCC or lower 4.175% →	Very weak 26.8%	
Q25.	<p>Q25: Do stakeholders have any comments on stage 3? No, as they are a direct result from the period calculated earlier. However, they do not take into account any local legal requirements regarding the recovery periods of an underfunded IORP.</p>		
Q26.	<p>Q26: Is it reasonable to not allow for any recoveries from sponsor defaults? Please provide examples where this could increase the calculated value of sponsor support. Not allowing for any recoveries seems too strict/ stringent. Recoveries are very often driven by local legislation. Not taking into account any recoveries:</p> <ul style="list-style-type: none"> • makes it more difficult to compare the HBS across the EU as the recoveries will change the real life situation depending on the local legislation; • the probability of default determined by the credit ratings are based on the defaults which are often caused by problems of liquidity. This does not always mean there is insolvency. Using these probabilities of defaults in combination with no allowance for recoveries is too stringent. <p>A1. One practical avenue could be to adjust the probabilities of default to reflect a certain % of recoverables from a default. Thus, the used default probabilities would be lower than the actual probabilities, without the need for separate recoverables calculations.</p>		
Q27.	<p>Q27: Is it appropriate to do separate calculations to allow for sponsor support from other group companies (both for legally enforceable and not legally enforceable support by group companies)? Not necessarily. From a legal point of view there's in the Netherlands usually one agreement between an IORP and the main sponsor. In this agreement the main sponsor guarantees to the</p>		

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	<p>IORP the total sponsor contributions of all other group companies. The main sponsor pays the total contribution to the IORP and subsequently charges the contribution to the respective group companies. In case of late payments (or even default) it's the main sponsor and not the IORP who has an (internal) claim on the individual group company. Therefore separate calculations for sponsor support from other group companies seems needlessly complex and unnecessary. Separate calculations for not legally enforceable sponsor support from other group companies are always arbitrary and insecure because it is impossible to predict the willingness of these group companies to contribute in rare cases in advance.</p> <p>Note: other group pension funds may qualify as an IORP, in which case the IORP, dependent on the arrangement in place with the sponsor, will conduct its own separate calculations.</p>	
Q28.	<p>Q28: Should any other guidance be included on how to allow for sponsor support from other group companies?</p> <p>No, see answer on Q27.</p>	
Q29.	<p>Q29: What could be other valid reasons why the IORP should or should not take the financial position of the wider sponsor group into account when assessing the sponsor's financial position?</p> <p>If the group company will be excluded, the potential sponsor support will be underestimated and this should not be the case. A valid reason for taking the financial position of the wider sponsor group into account might be that an official credit rating is only available at group level.</p>	
Q30.	<p>Q30: Is the approach to determining the loss-absorbing capacity appropriate?</p> <p>Showing the gross SCR elements together with the loss absorbing capacities (benefit mechanisms, sponsor support) might have an added value in terms of risk management/reporting for/to the stakeholders.</p> <p>Could the sensitivity analysis be used as a short cut for the complicated and iterative SCR calculation? (e.g. for smaller IORPs a full SCR approach every 5 years, and in between a sensitivity analysis only?)?</p> <p>One should take care that if sponsor default is incorporated twice (in both the gross SCR and the loss absorbing capacity) the net SCR is not too high.</p>	
Q31.	<p>Q31: Should any other sensitivity analysis be considered?</p> <p>Sensitivity analysis is already too extensive especially if it needs to be seen in combination with the SCR approach.</p>	

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Q32.	Q32: Are there any other types of sponsors that should be included? How to apply for IORPs with self employed individuals, cross border IORPs ?	
Q33.	Q33: What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory environment? Comparable sponsor's IORP/pension scheme information should be available to make a correct assessment of an IORP belonging to a sponsor with different IORPs/pension schemes (national, multi national, global). Sponsor support of the wider company group requires more accurate reporting to make access to information feasible and to avoid gearing effects. We question whether there are enough resources available to make all these complex calculations, both on the IORPs side and the supervisory authorities side. Is this regulation overshooting the capabilities of smaller and medium sized IORPs? We should have a solution for all situation differing from a 1-1-1-1 (sponsor/pension institution/pension promise/country) scenario as well as for IORPs in the public or not for profit sector and the cross border situations. These situations are still not sufficiently studied. We regret that the Commission aborted the study about the macro economic impact of the holistic balance sheet. Besides the risk of the reallocation of assets towards fixed income, introducing the sponsor support element might have a big macro economic impact. This should be studied before further initiatives are taken.	
Q34.	Q34: What other improvements could be made to the suggested approach? The iterative process of the calculations is only feasible if accompanied by good tools to limit the administrative burden and take into account the proportionality for small and medium sized IORPs. Furthermore in the context of the alternative approach more guidance with regard to the possibility of future deficits of an IORP could be provided.	
Q35.	Q35: Are there any aspects of the suggested approach which are unclear? It would be more clear to specify the discount rate each time. The current text is confusing. EIOPA should provide for a solution for all situations differing from a 1-1-1-1 (sponsor/pension institution/pension promise/country) scenario as well as for IORPs in the public or not-for-profit	

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	sector and the cross border situations. These situations are still understudied.	
Q36.	<p>Q36: How could the average financial strength of an industry be determined?</p> <p>This depends on the number of sponsors within a sector, the viability of the sector and possibly other criteria. The historic number of defaults in the sector could be a further measure, as well as measures of certain individual companies, provided that these are representative for their sector.</p>	