

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

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

Name of Company:	Railways Pension Trustee Company Limited (RPTCL)	
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, <u>in Word Format</u>, 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>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. RPTCL's most significant scheme from a sponsor support perspective is the Railways Pension Scheme and this response focuses on the discussion paper in the context of this scheme.</p> <p><b>The Railways Pension Scheme</b></p> <p>The Railways Pension Scheme ("RPS") is an industry-wide pension scheme. The RPS has in excess</p>	

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of 150 employers participating in more than 100 sections. It should be noted that the sections of the RPS covered by this response almost always operate on a “shared cost” basis with the cost of meeting both future benefit accrual and shortfall recovery in each section often, but not always, being met 40% by member contributions and 60% by the sponsoring employer(s) in that section.

**General comments regarding this response**

It is unclear whether the methodologies under discussion in the paper are simply to be used for the purposes of conducting a QIS as a high level indicative assessment of sponsor support; or could ultimately form the basis of a new IORP solvency / scheme-specific funding regime. We note from the paper that “...more calibration would be needed if proposed approaches for sponsor support were to be used or adapted for a specific supervisory framework”.

Whether the methodologies under discussion in the paper are to be used to deliver high level indicative assessments for QIS purposes; or to be used for more detailed QIS assessment; or ultimately to form part of a supervisory framework is crucial. As this is unclear to us, we have needed to caveat many of our answers accordingly.

As a general overview comment, we would stress that funding IORPs, including the extent of any sponsor support, is a multi-dimensional exercise involving a wide range of variables and uncertainties – many of which are inter-related. The complexity of evaluating sponsor support in relation to obligations which are typically very long term and uncertain (for example due to mortality or other assumptions) should not be under-estimated and, whilst we can see from the discussion document that attempts are being made to address criticisms arising from the initial consultation, and note the provisions in Paragraph 62 of the Discussion Document, we believe that a number of the proposals in the document may be simply too mechanistic for the purposes of any meaningful attempt evaluating sponsor support – other than on a high level, indicative basis - in the context of an IORP.

We would also reiterate that any approach to balancing an holistic balance sheet using Level A

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technical provisions is, for the vast majority of non-insured IORPs, simply unrealistic and potentially hugely damaging to IORPs, their sponsors, the investment markets and wider economies.

The UK has a well-developed environment for the assessment of sponsor support / employer covenant, which takes account of all relevant factors including qualitative, legislative and contractual support as well as financial analysis. The RPS has its own team of specialist employer covenant advisers who provide comprehensive assessment, monitoring and transactional advice to the Trustee on all employer covenant-related matters.

Q01.

**Should IORPs be provided with additional guidance for conducting a stochastic valuation of sponsor support?**

This question appears to have two dimensions: should IORPs conduct stochastic analysis and, if so, how?

In relation to the former, for high level QIS purposes, such stochastic analysis is likely to be disproportionately time-consuming, expensive for UK IORPs and – given the wide range of variables involved in IORP funding and their inter-relationship - potentially meaningless for a considerable number of UK IORPs and their sponsors.

There are a number of different stochastic models available which can give very different results.

It seems likely that those who already use stochastic techniques are well equipped to make judgements on their use, whereas those who do not use them are unlikely to adopt them given the associated complexity and expense.

If it were to be the case that the output from this work were to be used for individual scheme funding purposes, we believe that stochastic analysis would not be appropriate, as (i) it would be time-consuming, expensive and of questionable value; and (ii) could not adequately address the

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	qualitative and contractual support as well as financial analysis that is required to properly take account of the strength of sponsor support “in the round”.	
Q02.	<p><b>Should IORPs be provided with additional guidance for conducting valuations of sponsor support using either Simplification 1 or 2? Should either of these simplifications be removed or should any other simplifications be developed?</b></p> <p>Given the risks associated with using a simplified approach (and our view that sponsor support should be looked at “in the round”), we believe that it would be important to emphasise and expand upon the provisions of Paragraph 62 which, to some extent, encourage a broad, rather than potentially mechanistic, view of sponsor support.</p>	
Q03.	<p><b>In the stakeholders’ view, what role should the concept of maximum sponsor support play in the general valuation principles for sponsor support?</b></p> <p>The concept of maximum sponsor support as a “stand-alone” item is often of limited value in general valuation principles for sponsor support.</p> <p>Funding an IORP will typically require a multi-dimensional analysis of the rights and obligations of a range of stakeholders – including lenders, shareholders, contractual counterparties and the IORP(s) themselves. There is typically no realistic “point value” of maximum support as it will vary regularly depending on assumptions and circumstances.</p> <p>In the case of IORPs, sponsor support should be viewed in the context of a sponsor’s pensions obligations. The vast majority of credit measurement tools and disciplines are carried out with reference to a specific focal point e.g. <i>credit ratings</i> for a <i>bond issue</i> or bank’s <i>credit scoring</i> on the ability to service and repay a <i>loan</i>.</p>	
Q04.	<p><b>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?</b></p> <p>Using wage as a measure will usually not be appropriate as it has a considerable number of</p>	

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	<p>limitations, including:</p> <ol style="list-style-type: none"> <li>1. In many cases, a significant proportion of employees may not be members of the IORP(s).</li> <li>2. Wage is, in many cases, of decreasing relevance to sponsor support given the small, and reducing, percentage of active scheme members in many schemes compared to overall scheme membership. The relationship between overall payroll costs and pension obligations is therefore in a state of considerable flux in many situations.</li> <li>3. The use of wage also ignores the fundamental differences between labour-intensive and capital-intensive companies / industries.</li> </ol> <p>It is possible that an “Estimated Loss” type model, where the estimated loss is the product of Probability of Default, Loss Given Default and Exposure at Default, could be appropriate <i>if</i> there is sufficient flexibility to allow the elements of the calculation to be specific to the sponsor, using both qualitative and quantitative measures.</p>	
Q05.	<p><b>Are stakeholders comfortable with the concept of linking default probabilities, credit ratios and sponsor strength?</b></p> <p>The linking of default probabilities, credit ratios and sponsor strength in the manner suggested appears to result in another type of “mechanistic” credit rating. In Para. 29, the paper notes that European legislators wish to reduce “sole and mechanistic reliance on such ratings”. The creation of another quasi credit rating does not therefore appear to address the issue. The concept is, however, accepted as potentially relevant if the output is to be used for simplistic, high level data aggregation - but certainly not for IORP funding arrangements or decisions. Any concept of sponsor strength needs to take account, for example, of contractual, qualitative and other measures in addition to taking a longer term and not “point in time” view of income generation and balance sheet strength.</p>	
Q06.	<p><b>Do stakeholders agree with exploring the possibility of including a standard table in the technical specifications that links credit ratios with default probabilities?</b></p> <p>Any mechanistic “standard” approach may be sufficient for assisting high level analysis of sponsor</p>	

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	<p>strength for reporting or monitoring purposes e.g. at State level. However, any mechanism that does not take account of all relevant information on the ability of a sponsor to meet its pensions obligations, including qualitative information, in the context of those obligations, would not be appropriate for use for the funding of a scheme’s technical provisions or any other important matter relevant to the governance or funding of an IORP. As mentioned in our answer to Q2 above, we believe that the provisions of Paragraph 62 should be emphasised.</p>	
<p>Q07.</p>	<p><b>Do stakeholders have other suggestions to derive default probabilities of the sponsor and to reduce reliance on credit ratings?</b></p> <p>We find in practice that the probability of default is highly sponsor-specific and does not lend itself to any form of formulaic approach. For example, an employer may default due to the non-renewal of a key contract; or technological or regulatory change; or due to a change in attitude by lenders at a particular point in the credit cycle. Any attempt to derive a probability of default needs to be sponsor-specific – unless the exercise is for a simple high level data aggregation or similar, without any specific consequences for the IORP or the sponsor, and where a broad estimate could suffice.</p>	
<p>Q08.</p>	<p><b>Do stakeholders agree that the timing of sponsor support reflecting the affordability of making additional payments could be an improvement to the general principles for valuing sponsor support?</b></p> <p>We agree that timing / affordability should be part of the general principles for evaluating sponsor support. However, for shared cost schemes such as the RPS, sponsors’ affordability may need to be set alongside member affordability.</p> <p>Further, we emphasise that “affordability” is a question of judgement that needs to take account of, for example, sponsor investment opportunities and returns necessary to other stakeholders (including equity shareholders) to secure their continued interest in and support for the business.</p>	

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Q09.

**Do sponsors think that limited conditional sponsor support should be valued and included on the holistic balance sheet? Should it be included separately?**

Sponsor support should reflect the legal obligations of the sponsor. It should also take account of any legislative or contractual protections that benefit the sponsor and/or the scheme. In practice, at times when support that is not legally enforceable is required the most i.e. in distress scenarios, such support often evaporates or is diluted. Discretionary support arising from the exercise of a power by a regulator to impose a support requirement on an entity other than the sponsor *may* be taken into account depending on the circumstances and the certainty and timing of the support actually being received.

**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?**

Sponsor support should reflect the legal obligations of the sponsor. It should also take account of any legislative or contractual protections that benefit the sponsor and/or the scheme. In practice, at times when support that is not legally enforceable is required the most i.e. in distress scenarios, such support often evaporates or is diluted. Such limited conditional support and discretionary support should usually therefore be ignored. Discretionary support arising from the exercise of a power by a regulator to impose a support requirement on an entity other than the sponsor *may* be taken into account depending on the circumstances and the certainty and timing of the support actually being received.

In terms of discretionary benefit adjustment mechanisms, these are likely to be highly IORP-specific and dependent on a range of governance and other factors. There may well be circumstances where these could be considered.

Q10.

On this basis, if the technical specification were to be used for anything other than simplistic data

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	<p>aggregation, we believe that detailed guidance would be needed as to any circumstances in which discretionary support – whether from the sponsor or by way of benefit adjustment – were to be taken account of.</p>	
Q11.	<p><b>Please provide your general comments on the alternative approach.</b></p> <p>We do not understand a continued emphasis on Level A technical provisions which seem completely out of step with the basis upon which a huge number of UK IORPs are funded – and have been for very many years.</p> <p>Introducing the context of pensions obligations to the model is a positive step. The approach is useful if used as part of an overall approach that takes account of quantitative and qualitative elements. If Stage 1 was sufficiently flexible to take account of all relevant factors that impact upon the strength of sponsor support, including qualitative, legal and contractual support, then a sponsor strength scale – such as the “1-6” rating scale - would have considerably more applicability. If, however, Stage 1 is restricted to simplistic ratio analysis derived from single or small multiple period financial statements, these other factors would be ignored and, unless used for simplistic data aggregation purposes only, we believe that the approach would have highly limited practical value.</p>	
Q12.	<p><b>Does the alternative approach address the concerns raised during the previous consultation on the technical specifications?</b></p> <p>Notwithstanding the provisions of Paragraph 62, there is a risk that the application of the alternative approach may result in an over-simplified, and potentially incorrect analysis, if sponsor support is not considered “in the round”.</p>	
Q13.	<p><b>Are there any other areas that have not been addressed adequately enough?</b></p> <p>We believe that it is vital to emphasise the provisions of Paragraph 62 and to encourage a consideration of sponsor support “in the round”.</p>	



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Q14.	<p><b>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 purposes?</b></p> <p>We see no reason why IORPs would want to invest time and effort calculating a maximum value of sponsor support in full recognition of the fact that this could be hugely changeable and of limited value at a point in time.</p>	
Q15.	<p><b>Do stakeholders have other suggestions to adjust these ratios to cater for different sectors?</b></p> <p>It is correct that sector variances (for example, labour intensive vs. capital intensive sectors) will highlight weaknesses with simplistic ratio analysis – again, emphasising how an assessment of the strength of sponsor support needs to be looked at “in the round”.</p> <p>The adjustment of such ratios, in an attempt to make them more sector-specific or for any other purpose, would not overcome the weakness of relying substantially on ratio analysis. From the discussion document, it is correct that banks use such ratios, but not in isolation. Bank credit applications, other than for very small credit amounts, would usually cover relevant and material qualitative factors as well as ratio analysis and be subjected to rigorous challenge before a decision is made. Even for small credits which are subjected to automated / scorecard decisions, there are a multitude of qualitative factors that are part of the decisioning process. The ongoing use of financial ratio analysis can be used as an indicator of portfolio strength or direction of travel, but not as a core decision-making tool.</p>	
Q16.	<p><b>Does Stage 1 contain enough information and guidance for the IORPs to calculate a credit strength that is proportionate for QIS purposes?</b></p> <p>As we do not fully understand how the information for the QIS is to be used, it is impossible to answer this. If the purpose is for high level, State reporting and data aggregation, then allowing sufficient flexibility for IORPs to evaluate sponsor support “in the round” may enable this approach to be made fit for purpose. If, however, this approach may ultimately be used to</p>	

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	directly influence scheme specific funding requirements, it must allow for the other relevant factors including qualitative, legislative and contractual support. Looking at the suggested ratios specifically, the definition of pensions debt service cost (for income cover) is inconsistent with the definition of IORP shortfall (Level A). Both these definitions need further thought and explanation to be relevant.	
Q17.	<p><b>Does Stage 1 contain enough guidance for the IORPs to do their own calculations if they believe this is appropriate for them to do so?</b></p> <p>More direction on the degree of flexibility would assist in allowing us to carry out our own calculations to the extent that where other relevant factors including qualitative, legislative and contractual support prove the use of ratio analysis to be redundant, then the “1” to “6” rating could be allocated based on these other relevant factors. Looking at the suggested ratios specifically, It seems to us that thought needs to be given as to the definition pension debt service cost (for income cover) and whether this should be referable to contributions actually paid or contributions based on a Level A shortfall.</p>	
Q18.	<p><b>Are Income Cover and Asset Cover suitable credit ratios to use for Stage 1?</b></p> <p>Income cover and asset cover are suitable for general portfolio monitoring. They are not suitable as a stand-alone measure for any substantive analysis of sponsors as they ignore the quality of income, the linkage between accounting profits and cash generation, the quality of assets and other salient factors including qualitative, legal and contractual support. Looking at the suggested ratios specifically, we cannot see why Level A deficits should be used as the basis for the calculations; and how pensions debt service costs are referable to these.</p>	
Q19.	<p><b>Are the parameters used to determine sponsor strength in Table 4 appropriate?</b></p> <p>As in Q18, income cover and asset cover are suitable for general portfolio monitoring. They are not suitable as a stand-alone measure for any substantive analysis of sponsors as they ignore the quality of income, the quality of assets and other relevant factors including qualitative, legal and</p>	

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	<p>contractual support. Looking at the suggested ratios specifically, we cannot see why Level A deficits should be used as the basis for the calculations; and how pensions debt service costs are referable to these.</p>	
Q20.	<p><b>What other definitions of earnings or net assets could be used in sectors where the standard definitions are not appropriate?</b></p> <p>There are so many sector variances, and sponsor earnings over time can be so variable in nature and volatility, that it is impossible to answer this question meaningfully. To the extent that financial ratio analysis were to play any part in an assessment of sponsor support, then it would need to be properly tailored to the sponsor’s specific sector and financial profile and any methodology should explicitly allow for the flexibility to do this. To this end, we do note the comments in paragraphs 62 and 63 about the use of judgement.</p> <p>Within the RPS, we segment the “rail” industry into more than 10 sub-sets for sponsor rating calibration purposes. Directly comparing a franchised train operating company with a rolling stock leasing company or track maintenance company would be completely meaningless as their characteristics vary so much – albeit that they are all important players in the UK “rail” industry.</p>	
Q21.	<p><b>Are the periods shown in Stage 2 appropriate (bearing in mind this is for QIS work only, and not to determine a policy response)?</b></p> <p>The periods shown appear appropriate at a theoretical level (i.e. what a sponsor could afford, ignoring all other considerations) albeit they are with reference to Level A technical provisions, which is inappropriate for the vast majority of IORPs. We note the caveat at Q21 but would emphasise that the periods shown will be excessively simplistic if ultimately used as part of any policy response. Any recovery plan periods would in practice need to be evaluated taking account of a range of dimensions including the need for investment in the sponsor; and the rights and obligations of other financial and contractual stakeholders.</p>	

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Q22.	<p><b>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?</b></p> <p>For modelling purposes, time periods should be based on affordability and obligation – but in practice agreed deficit recovery plans should take account of a range of other dimensions including the need for investment in the sponsor; and the rights and obligations of other financial and contractual stakeholders.</p>	
Q23.	<p><b>To what extent are there any IORPs whereby sponsor contributions cannot exceed certain limits (even if contributions are affordable)?</b></p> <p>The vast majority of sponsors will need to find a balance between the needs of the IORP(s) they sponsor; investment in the growth of the business (which will benefits the IORP long term); other strategic opportunities (which could benefit the IORP long term); and the rights, obligations and expectations of other financial and contractual stakeholders including lenders and existing and future equity investors.</p> <p>In the example of the RPS, most of its sections operate on a “shared cost” basis with the cost of meeting both future benefit accrual and shortfall recovery in each section often, but not always, being met 40% by member contributions and 60% by the sponsoring employer(s) in that section. Therefore, shared cost schemes, such as the RPS, need to consider member as well as sponsor affordability.</p>	
Q24.	<p><b>Are the annual probabilities of default appropriate for future QIS purposes? If not, why not?</b></p> <p>We do not have sufficient empirical or other evidence to allow us to answer this question.</p>	
Q25.	<p><b>Do stakeholders have any comments on Stage 3?</b></p> <p>In determining an overall deficit recovery plan, the vast majority of sponsors will need to find a</p>	

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	<p>balance between the needs of the IORP(s) they sponsor; investment in the growth of the business (which will benefit the IORP long term); other strategic opportunities (which could benefit the IORP long term); and the rights, obligations and expectations of other financial and contractual stakeholders including lenders and existing and future equity investors.</p> <p>Table 8 appears to force the strongest sponsors into very short recovery periods. This is particularly inappropriate for schemes operating on a shared cost basis, such as the RPS, where a fixed percentage of the cost of meeting both future benefit accrual and shortfall recovery is typically met by member contributions.</p>	
Q26.	<p><b>Is it reasonable not to allow for any recoveries from sponsor defaults? Please provide examples where this could increase the calculated value of sponsor support.</b></p> <p>Recoveries from sponsor defaults, based on the specific circumstances of the sponsor, should be part of the calculation and should not be subjected to a cap.</p>	
Q27.	<p><b>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)?</b></p> <p>Calculations should be carried out for all legally obligated, or potentially legally obligated, sponsors. In the context of the UK, this may include other companies within a group where the Pensions Regulator would be able to serve contribution notices e.g. where a parent company has received a substantial level of historic dividends. The interaction on covenant strength from group situations, both positive and negative, is complex. Any guidance should be at a framework / principles level, within which appropriate analysis should be used to evaluate any impact of group support.</p>	
Q28.	<p><b>Should any other guidance be included on how to allow for sponsor support from other group companies?</b></p>	

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The interaction on covenant strength from group situations, both positive and negative, is complex. Any guidance should be at a framework / principles level, within which appropriate analysis should be used to evaluate any impact of group support.

**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?**

The interaction on sponsor strength from group situations, both positive and negative, is complex. Sponsor strength in these circumstances must take account of group banking and security packages, and the likelihood of these being called to an individual sponsor's detriment. It should consider how long a sponsor is to remain as part of a wider group (i.e. what is the likelihood of the sponsor being sold?); and it must also take account of other IORPs sponsored by some or all other group companies as well as other contingent liabilities. Any guidance should be at a framework / principles level, within which proper analysis should be used to properly evaluate any impact of group support.

Q29.

**Is the approach to determining the loss-absorbing capacity appropriate?**

We fundamentally disagree that an SCR is required. The existing framework for the funding of technical provisions in countries such as the UK already takes full account of the various risks facing IORPs. As noted in previous submissions, if IORPs are required to hold an SCR, we would expect them to adopt an investment strategy that minimises the capital requirements, which would rule out many asset classes in which IORPs currently invest, such as public infrastructure and listed equities. This could have a very detrimental impact on the European economy as a whole, and prospects for essential growth and jobs in particular.

Q30.

In addition, within the UK, as an example, the Pension Protection Fund, which is funded by UK

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	<p>IORPs, provides protection for scheme members in default scenarios where sponsors' own financial strength is insufficient to cover shortfalls on insolvency. Given that this Fund is paid for by UK IORPs, any additional funding requirement placed on UK IORPs for these purposes could therefore amount to double-funding.</p>	
Q31.	<p><b>Should any other sensitivity analysis be considered?</b></p> <p>This simplistic approach to sensitivities is in keeping with the simplistic model. However the fundamental flaws in using such a simplistic model are not mitigated by such sensitivity analysis.</p>	
Q32.	<p><b>Are there any other types of sponsors that should be included?</b></p> <p>All sponsors should be included. By allowing sufficient flexibility, expert analysis of the specific legal, legislative, contractual and financial circumstances of each sponsor within a framework would negate the requirement to be prescriptive on types of sponsor.</p>	
Q33.	<p><b>What additional work should be carried out if this methodology was to be used for determining sponsor support in a regulatory or supervisory environment?</b></p> <p>We believe that the proposed methodology is fundamentally and completely inappropriate for determining sponsor support in a regulatory or supervisory environment.</p> <p>Sponsor support is multi-dimensional, long term and does not lend itself to "point" or single number answers. Rather, it needs to be evaluated "in the round" taking account of a very broad range of variables including market, financial, legal, contractual and circumstantial factors. Within the portfolio of more than 150 RPS employers, there are a wide number whose support characteristics are entirely specific to their own circumstances.</p> <p>In the RPS, we do use a 6 point rating scale for addressing sponsor support. But the definitions of the ratings – referable explicitly to the sponsors' obligations to the RPS – are descriptive and</p>	

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	<p>qualitative and NOT in any way formulaic. This approach ends up with credible, considered and (internal) market consistent ratings which provide a helpful basis for ongoing funding discussions and which reflect both professional judgement and an assessment of qualitative factors such as management track record.</p>	
Q34.	<p><b>What other improvements could be made to the suggested approach?</b></p> <p>Sponsor support is multi-dimensional, long term and does not lend itself to “point” or single number answers. Rather, it needs to be evaluated “in the round” taking account of a very broad range of variables including market, financial, legal, contractual and circumstantial factors. Within the portfolio of more than 150 RPS employers, we can illustrate a wide number whose support characteristics are entirely specific to their own circumstances.</p> <p>In the RPS, we do use a 6 point rating scale for addressing sponsor support. But the definitions of the ratings – referable explicitly to the sponsors’ obligations to the RPS – are descriptive and qualitative and NOT in any way formulaic. This approach ends up with credible, considered and (internal) market consistent ratings which provide a helpful basis for ongoing funding discussions and which reflect both professional judgement and an assessment of qualitative factors such as management track record.</p>	
Q35.	<p><b>Are there any aspects of the suggested approach which are unclear?</b></p> <p>At a fundamental level, we are unclear whether the methodologies under discussion in the paper, are simply to be used for the purposes of conducting a QIS as a high level indicative assessment of sponsor support; or could ultimately form the basis of a new IORP solvency / scheme-specific funding regime. We note from the paper that “...more calibration would be needed if proposed approaches for sponsor support were to be used or adapted for a specific supervisory framework”.</p> <p>Whether the methodologies under discussion in the paper are to be used to deliver high level indicative assessments for QIS purposes; or to be used for more detailed QIS assessment; or ultimately to form part of a supervisory framework is crucial. As this is unclear to us, we have needed to caveat many of our answers accordingly.</p>	



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	<p>We believe that the proposed methodology is fundamentally and completely inappropriate for determining sponsor support in a regulatory or supervisory environment.</p>	
Q36.	<p><b>How could the average financial strength of an industry be determined?</b></p> <p>We cannot see how this could be meaningfully and consistently determined and applied. There would need to be considerable work to define “industries”; accommodate conglomerate sponsors operating in many industries; consider how to deal with cyclical industries; or industries – such as technology – where the overall “industry” may be very valuable but individual participants’ strength could be massively volatile.</p> <p>Within the RPS, we segment the “rail” industry into more than 10 sub-sets for sponsor rating calibration purposes. Directly comparing a franchised train operating company with a rolling stock leasing company or track maintenance company would be completely meaningless as their characteristics vary so much – albeit that they are all important players in the UK “rail” industry.</p>	