

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

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

Name of Company:	TUC	
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, in Word Format, 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>We welcome the opportunity to comment on this consultation. There is a broad consensus among the UK's social partners about the adverse impact the proposals to revise the Institutions for Occupational Retirement Provision (IORP) Directive could have on the EU economy and UK's occupational pension schemes. We have limited our response to general principles.</p> <p>The TUC welcomed the the announcement in May this year by Commissioner Barnier that the IORP Directive will not not cover first Pillar issues based on Solvency II. However, this is only a temporary reprieve this revision of the Directive may well resurface as a threat to occupational pension schemes. In addition the consultancy paper notes that solvency issues are not part of the proposed new IORP Directive, and</p>	

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given this we question why EIOPA is still investigating this matter.

Here we set out our principled opposition to the proposed IORP Directive. Our specific concerns include the following.

- *Lack of proportionality.* The UK and the Netherlands account for 85 per cent of defined benefit liabilities within the European Union, yet the technical specifications are designed to accommodate a wide range of pension system arrangements. We do not believe it is appropriate for the European Commission or EIOPA to prescribe valuation arrangements and solvency capital requirements for UK pension funds.
- *Insufficient internal market rationale.* At present there are only 84 cross-border IORPs, of around 140,000 IORPs in the EU. There remains a lack of evidence that revising the IORPs Directive would alter this situation. We believe that the lack of cross-border IORPs is in fact due to a lack of demand, and the different pension systems and tax regimes that exist in Member States.
- *Difference between insurance and pension funds.* A solvency regime similar to that required by financial services companies providing insurance schemes is not the same as that required by defined benefit pension schemes that have long-term predictable liabilities and are backed by a participating employer. We believe the application of a harmonised Solvency II-derived regulatory framework to funded occupational pension schemes is both undeliverable and undesirable.
- *Impact on schemes and members.* The method(s) outlined by EIOPA for valuing technical provisions could place greater pressure on schemes by significantly and arbitrarily over-valuing scheme liabilities and under-valuing security arrangements. This could lead to a high level of scheme closures, therefore resulting in fewer benefits for scheme members and undermining retirement provision. We do not believe that revising the IORP Directive is in the interests of occupational pension scheme members.

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- *Economic impact.* We are also concerned about the adverse impact a revised IORP Directive could have on the EU economy. Given the current European economic situation, the potential impact of a revised IORP Directive could be particularly unwelcome. De-risking of investment portfolios, as pension schemes move from equities to risk-free investments, could negatively impact on investment, destabilise capital markets and ultimately affect economic growth.
- *Holistic balance sheet.* We find it impossible to have confidence in the complex method(s) outlined for including sponsor support and pension protection schemes as scheme assets. The holistic balance sheet fails to capture the unique nature of the UK pension system and security arrangements. The risk of pseudo security is significant, potentially undermining efforts by the government, regulators and trade unions in the UK to ensure adequate protection for members. The over-reliance on modelling assumptions for many aspects of the valuation means that the reliability of outcomes could be questionable. The reliance of calculations on credit ratings of sponsors and investments is also inappropriate and at odds with the development of regulatory practice in other areas.
- *Governance:* It is problematic that EIOPA is seeking to value sponsor support in isolation from governance rules, through which the relationship between scheme trustees and sponsoring employers are established.
- *Administrative burden.* Whatever the method chosen for valuing technical provisions and the solvency capital requirements, we believe there is a significant likelihood that the results of the QIS and subsequent technical exercises will be largely meaningless for assessing the underlying funding status of occupational pension schemes in the UK. As such the QIS and subsequent valuations based on the proposed Directive will represent a significant and unnecessary administrative burden for schemes. Furthermore, given that fully participating in this exercise will be very expensive for the majority of IORPs,

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	those that participate will be a biased sample of large pension plans, i.e. those that can more easily absorb the costs.	
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