

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

Deadline
13 January 2015
23:59 CET

Name of Company:	Towers Watson	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column “reference”; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment/response in the relevant row. If you have <u>no response</u> to a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments/responses which do not refer to the specific numbers below. <p>Please send the completed template, in <u>Word</u> Format, to CP-14-040@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Consultation Paper on Further Work on Solvency of IORPs.</p>		
Reference	Comment	
General Comment	<p>Towers Watson welcomes the opportunity to comment on this consultation paper.</p> <p>We acknowledge the work that EIOPA has carried out to date on the development of the Holistic Balance Sheet. We believe that this has been a valuable contribution to discussions about the security, sustainability and adequacy of second pillar pension provision in Europe. Indeed, it has been a useful concept for supervisors, sponsors and those managing IORPs when considering whether and, if so, how to assess values of and risks attaching to various assets and liabilities held within pension funds.</p> <p>However, Towers Watson does not believe that there is additional merit in trying to pursue this work further at an EU-wide level. We also have grave concerns that using the HBS to assess funding requirements, particularly if these requirements are set at Level A technical provisions could have severe undesirable consequences for long-term sustainable investment in Europe.</p>	

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	<p>Comments we made in response to the discussion paper on the sponsor support technical specification remain appropriate today – and we repeat some of these below; shown in quotation marks for ease of reference:</p> <p>“We still consider a valuation as largely unnecessary, potentially administratively burdensome and with costs that are disproportionate to any benefit. However, we recognise the key role that sponsor support would play if an Holistic Balance Sheet were used as a risk management tool for IORPs. As set out in our letter to M. Michel Barnier dated 11 June 2012 we consider that havingsponsor support as a ‘balancing item’ in the HBS would be the best approach. “ [the letter is attached as a pdf to the email used for sending this consultation response]</p> <p>The general themes of Towers Watson’s response are as follows:</p> <ul style="list-style-type: none"> • we do not feel that a detailed valuation of sponsor support - such that this is condensed into a single number - is readily doable or useful • EIOPA’s desire to obtain a meaningful harmonised ‘basis’ for valuing all elements of the HBS is probably unachievable; of course ‘technically’ a prescribed basis could be used, but it would have no practical relevance; for example, even on the sole point of sponsor support valuation EIOPA’s own data shows extreme variation in outcomes dependent on how this is carried out • Member States (and their own regulatory authorities) are best placed to determine what is appropriate as a basis for assessing solvency/risks relating to IORPs based in their jurisdiction 	
Q1	<p>Contract boundaries</p> <p>Do stakeholders think that the word “contract” is an adequate description of the characteristics of the set of rules and arrangements governing the provision of benefits to members and beneficiaries by an IORP? This term exemplifies why Solvency II is an inappropriate starting point for IORPs in most Member States. It is potentially misleading as the governing relationship does not need to take the form of a contract. Moreover, that relationship may be an agreement between the sponsor and the IORP or the employer and the member. Within the UK, whatever expression is used should encompass all the legal documentation governing the provision of benefits under the IORP. We are aware, however, that the term ‘contract’ is quite common in the Netherlands, albeit read in a more ‘abstract’ sense than suggested.</p>	
Q2	<p>Do stakeholders think that the word “boundary” is suitable here?</p> <p>The term “boundary” is equally alien for IORPs as the term “contract”. A more familiar term within the UK would be “accrued benefits” or “accrued liabilities”.</p>	

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Q3	<p>If not, please provide an expression more suitable for IORPs which could replace the expression “contract boundaries”.</p> <p>Whatever expression is used, it needs to identify the benefits that the IORP is obliged to provide in accordance with the governing documentation.</p>	
Q4	<p>Do stakeholders have any general comments on the above section?</p> <p>The expressions “unilateral right or obligation to terminate/amend ...” and “fully reflect the risk” need to be defined separately or incorporated into any definition of benefit obligations (Q3). Rights may rest unilaterally or jointly with the governing body of the IORP (e.g. the plan trustees) and/or the sponsor, the social partners or the regulator. The acquisition of benefit rights is not necessarily directly linked to the collection / payment of contributions over the same duration – rights may be acquired but not fully funded at the time they are granted.</p>	
Q5	<p>Do stakeholders think that unilateral rights (or obligations) of an IORP to terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk should be the basis for a definition of contract boundaries for IORPs? Are there cases where such rights (or obligations) should be the basis for a definition of contract boundaries for IORPs even though they are not unilateral rights (or obligations) of the IORP, but can be exercised unilaterally or jointly by other parties (possibly together with the IORP)?</p> <p>The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk.</p>	
Q6	<p>Do stakeholders agree with the analysis above of the different ways of liabilities of IORPs arising?</p> <p>Yes.</p>	
Q7	<p>Do stakeholders think that there should be a distinction between incoming cash-flows which are considered as “regular contributions” to finance (the accrual of) benefits on the one hand and sponsor support on the other hand? What is the view of stakeholders regarding the practicality of such a distinction?</p> <p>Such a distinction is possible. Within the UK, contributions to repair any accrued rights deficit is identified separately. However, consideration would need to be given to all circumstances – there is not necessarily a simple divide e.g. where there is a surplus or where transfers are accepted. In the Netherlands, however, this is not necessarily the case and regular contributions can be considered part of sponsor support.</p>	
Q8	<p>Do stakeholders agree, that, if there was a distinction as described in question Q7, “regular contributions” should be recognised in technical provisions while sponsor support should be treated separately?</p> <p>Not where liabilities build up due to continued service (paragraph 4.30.ii. of the Consultation Paper), as is</p>	

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	the case in many UK defined benefit IORPs. In such circumstances, technical provisions should be calculated by reference to the benefits accrued.	
Q9	Do stakeholders agree that payments by the IORP to the sponsor related to a surplus of the IORP (in case such payments are allowed for in the scheme) should not be recognised in technical provisions of the IORP? If not, how/where should they be recognized/presented in the holistic balance sheet? They should not feature in the technical provisions, but it is not clear how the HBS would accommodate these.	
Q10	Are stakeholders aware of cases in which there would be an obligation of the IORP to pay out benefits without having received any contributions/payments to finance those benefits (e.g. because the obligation is constituted by social and labour law)? If yes, please describe. Equality requirements – e.g. uniform retirement age – may introduce obligations not originally envisaged by the sponsor (or IORP). This is another differentiation between IORPs and insurers.	
Q11	Do stakeholders believe that the contract boundaries could be defined based on future benefit payments rather than contribution or premiums? Where contributions derive from benefit obligations and, not the other way, round, yes. This is the case for most UK defined benefit schemes. .	
Q12	Do stakeholders have any general comments on the above section? Cash flows should be recognised within the technical provisions only to the extent that the IORP has an obligation to provide benefits at that assessment (valuation) date. Obligations that have not already arisen – e.g. future benefits – and that are conditional on new contributions being paid should not feature.	
Q13	Do stakeholders have any general comments on the above section? Inclusion of pure discretionary benefits within technical provisions may lead to those benefits ceasing to be pure discretionary. It should be possible (but not a requirement) to reflect the discretionary benefits that are expected to be granted, but where the sponsor has a legal obligation to fund the IORP benefits, it should be the sponsor’s expectation that prevails.	
Q14	Do stakeholders think that the above definition of contract boundaries for IORPs is in line with the general idea that cash-flows should be recognised if and only if they lead to risks building up in the IORP as described in section 4.2.4 (all those cash-flows should be in technical provisions; no cash-flows where all risks could be avoided should be in technical provisions)? We agree that cash flows should be recognised only to the extent that an obligation to provide benefits has arisen, but are concerned that the definition does not reflect this because it contains undefined terms.	
Q15	In case more/higher cash-flows than appropriate (compared with the general idea) are included in technical	

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	provisions according to this definition, how should the definition be amended to exclude them? This depends on the final standard definition. However, it should exclude future service accrual and contributions to fund such accrual.	
Q16	In case not all cash-flows which lead to risk building up in the IORP, as explained in section 4.2.4, are included, with which wording could they be included?	
Q17	Is the wording of the definition appropriate for IORPs? No. The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk.	
Q18	Is it necessary to have both 2. a. and b. in the above definition, or could a. be restricted to cases where a termination of the agreement leads to a stop of additional contributions and/or the repayment of contributions received/payment of a surrender value (and then maybe a. and b. could be combined)? 2a and 2b could be combined, but the points in each are separate. For example, the obligation to provide rights in relation to future service could terminate without impacting on the obligation to provide previously accrued rights. It's also quite possible within a multi-employer IORP that the obligation terminates for one (or more) employers, but that for the others continues.	
Q19	Are there additional rights of the IORP or another party (unilateral or not) which should be considered in the definition (see section 4.2.4)? The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk.	
Q20	Is it clear from the proposed wording of the definition that in principle not only benefits (out-going cash-flows), but also contributions (incoming cash-flows) have to be recognized in technical provisions? Yes.	
Q21	Are the cases described in parts a) and b) of the definition clearly distinguishable in practice? As parts a and b include undefined expressions e.g. "unilateral right or obligation to terminate/amend ..." and "fully reflect the risk", there is a risk that these are not clearly distinguishable.	
Q22	Are the conditions mentioned above for making unilateral rights of the sponsor part of the definition of contract boundaries sufficient, or should further conditions be included? How could those rights and	

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	<p>conditions be merged into the proposed definition of contract boundaries? The definition of contract boundaries (or any variation of this definition) should be expanded to include the rights of the sponsor as well as the IORP itself, as one or both may have the power to unilaterally or jointly terminate the contract/agreement/promise or reject additional contributions to the contract/agreement/promise or modify the promise in a way that contributions fully reflect the risk.</p>	
Q23	<p>Do stakeholders agree that the proposed adapted definition of contract boundaries for IORPs (above) leads to the results described in this section? If not, please explain. The examples are very helpful, but we would wish to see changes to the definition, as noted in answers to previous questions.</p>	
Q24	<p>Discretionary decision-making processes Do stakeholders consider the above definitions workable? If not, please explain why not and how you would suggest to improve the definition(s). We note that "mixed benefits"» describes a wide spectrum from almost pure discretionary benefits through to almost pure conditional benefits. Depending on the treatment of mixed benefits as part of the technical provisions, this category may need to be further subdivided.</p>	
Q25	<p>Do stakeholders have any general comments on the above section? For individual IORPs sufficient historical data may not be readily available to determine a meaningful pattern. Additionally, decisions taken in previous years may not be an appropriate guide to future decision-making in relation to discretionary benefits. It would seem appropriate to consider aligning the approach with International Financial Reporting Standards (constructive obligation) or under the locally applicable funding standards.</p>	
Q26	<p>Would it be possible, in the views of stakeholders, to properly quantify the relation between the funding position of the IORP and elements of discretionary decision-making (the pattern) in order to take the pattern into account in the valuation process? If so, how? This would seem unlikely to be sufficiently objective or robust as there may be insufficient data such as the factors that influenced previous decisions (and which may no longer apply) ; moreover, there may be new factors that would influence current decision-makers (potentially including the implications on solvency / funding requirements being consulted upon in this Consultation Paper).</p>	
Q27	<p>Do stakeholders agree that IORPs need to produce a best estimate of expected future payments (under different scenarios), if pure discretionary benefits were to be recognised in a holistic balance sheet? If not, what alternative would you suggest? No. We do not consider that pure discretionary benefits should be recognised in the holistic balance sheet. As such, IORPs should not be required to produce best estimates of future payments.</p>	

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Q28	<p>Do stakeholders agree that IORPs need to produce a best estimate of expected future payments (under different scenarios), if mixed benefits were to be recognised in a holistic balance sheet? If not, what alternative would you suggest?</p> <p><i>This should be for individual Member States and their national competent authorities to determine. For IORPs based in the Netherlands, where conditional indexation is likely to be treated as mixed benefits, we agree that the proposed approach seems reasonable.</i></p>	
Q29	<p>Do stakeholders agree that IORPs need to produce a best estimate of expected future sponsor payments (under different scenarios), if non-legally enforceable sponsor support was to be included on the holistic balance sheet? If not, what alternative would you suggest?</p> <p><i>We agree that if non-legally enforceable sponsor support is included in the HBS, the expected value should be modelled on a case specific basis using assumptions specific to and justified by the sponsor's specific circumstances. It seems logical that individual Member States and their national competent authorities are best placed to determine what is appropriate.</i></p>	
Q30	<p>Do stakeholders agree that these are the two options for valuing off-balance capital instruments? If not, what alternative options would you suggest?</p>	
Q31	<p>Which option do you support? Please explain why you support this option.</p> <p><i>This should be for individual Member States and their national competent authorities to determine. However, it ought to reflect the fact that the full value available at the valuation date may not be the value available if the off balance sheet asset were actually used.</i></p>	
Q32	<p>Do stakeholders agree that surplus funds should be valued for their nominal value? If not, how would you suggest to value surplus funds?</p> <p><i>Yes. We agree.</i></p>	
Q33	<p>Do stakeholders agree that these are the three options for valuing subordinated loans? If not, what alternative options would you suggest?</p> <p><i>We agree that these options are reasonable, although we wonder how common subordinated loans now are?</i></p>	
Q34	<p>Which option do you support? Please explain why you support this option.</p> <p><i>We support option 3 as this is likely to form the most consistent and realistic value for the subordinated loans.</i></p>	
Q35	<p>Benefit reduction mechanisms</p> <p>Do stakeholders agree with these two approaches to valuing benefit reduction mechanisms? If not, what alternatives or amendments would you suggest?</p>	

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	Yes. We agree with the two approaches set out to valuing benefit reduction mechanisms	
Q36	<p>Legally enforceable sponsor support</p> <p>Do stakeholders agree that at the EU level, there should only be a principle based approach to valuing sponsor support with the specifics being left to member states/supervisors and/or IORPs?</p> <p>Were an EU-level approach to valuing sponsor support to be taken, we agree that there should only be a principles-based approach to valuing sponsor support with the specifics being left to Member States and IORPs to allow for the difference in circumstances for particular Member States and in objectives for particular IORPs to be taken into account appropriately</p>	
Q37	<p>Do stakeholders agree with the overarching principle that the valuation of sponsor support should be market consistent? If not, what principle(s) would you suggest? We believe that it is very difficult to come up with an objectively market-consistent valuation of sponsor support as the support only has value when market conditions are such that the contingency of sponsor support is required i.e. markets are distressed. The wide variation in results from the methods proposed in this paper demonstrates the difficulty in assessing this value objectively. This principle does not appear to add value to the IORP in assessing risk or determining funding requirements.</p> <p>The overarching principle for the valuation of sponsor support is that the valuation should ensure the HBS is fit for the purpose for which it is being used i.e. it produces sensible funding requirements which improve the position of the IORP or produces a realistic assessment of the risks run by the IORP at the desired probability.</p>	
Q38	<p>Do stakeholders agree that in order to achieve this market consistent valuation, the expected cash flows required by the IORP should be valued allowing for affordability and credit risk of the sponsor? If not, what approach(es) would you suggest?</p> <p>We agree that these factors need to be taken into account, but note that market consistent discount rates need to be allowed for when valuing these cashflows and the link between adverse credit scenarios and market conditions should not be ignored.</p>	
Q39	<p>What is the general view of stakeholders with regard to sponsor support as a balancing item?</p> <p>We believe that this is the only pragmatic workable solution for the valuation of sponsor support due to the diversity and complexity of the scenarios faced by IORPs and their sponsors.</p>	
Q40	<p>Which conditions should apply for sponsor support to be treated as a balancing item?</p> <p>We are concerned about the “cliff-edge” effect of applying conditions for sponsor support to be treated as a balancing item, particularly in scenarios where the HBS might be used to determine deficit contributions.</p>	

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	<p>This could lead to distorted outcomes for IORPs and have very negative impacts on the sponsors of IORPs – particularly if the conditions are items outside of the sponsor’s or IORP’s control. A single condition is unlikely to be appropriate.</p>	
Q41	<p>Are there other cases beyond the cases mentioned above in which sponsor support could be treated as a balancing item? Our view is that it should be treated as a balancing item in all cases. At the very least, in cases where there is a guarantee underlying the support of the sponsor or where the sponsor is very large in comparison to the IORP should treat sponsor support as a balancing item.</p>	
Q42	<p>Do stakeholders have a view as to what value of M would be appropriate? Further analysis should be undertaken to determine an appropriate value of ‘M’. The value of M should be determined considering the purpose for which the HBS will be used – a different value could be more appropriate depending on the purpose of the HBS.</p>	
Q43	<p>Do stakeholders think a pension protection scheme could in principle be considered as impacting on sponsor support to allow it to be a balancing item if it is considered financially strong and based on a sufficiently permanent and certain legal arrangement? Yes – the pension protection scheme should be considered if the purpose of the HBS is to assess the overall security of the members’ benefits. However, if the HBS is being used to set funding requirements, this could cause difficulties in the UK.</p>	
Q44	<p>Should considering a pension protection scheme as a balancing item be restricted to cases where a pension protection scheme protects 100% of benefits or is it appropriate to allow for the reduction in benefits in case of sponsor default where there is a pension protection scheme in place? The presence of a pension protection scheme implies that members’ benefits are protected to the degree determined by individual Member States having regard to European legislative requirements and case law. This adds to the argument that work necessary to assess elements of the HBS should be proportionate and, in effect, the minimum necessary to assist those managing and supervising IORPs in understanding and managing the risks. These are matters that should be determined by each Member State against the backdrop of its own supervisory regime and the comparative importance of second pillar retirement provision.</p>	
Q45	<p>Do stakeholders believe that it is appropriate that where a pension protection scheme is used as the balancing item, a separate minimum level of funding with financial assets and/or sponsor support should be required? We believe that the protection of the PPS will require a separate minimum funding level based on financial assets/sponsor support to protect the viability of the PPS; however, this is something that is best</p>	

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	determined by the relevant individual Member State and its national competent authority.	
Q46	Do stakeholders agree that technical specifications should allow for a principles-based, IORP specific valuation of sponsor support? Please explain. We agree that the specifications need to allow for a principles based, specific valuation of sponsor support in order to accommodate IORPs who have the resources and inclination to use detailed specific modelling.	
Q47	In what areas of valuation of sponsor support would it be most useful for EIOPA to specify guidance? Please explain and describe the possible contents of such guidance. In our view, valuation of sponsor support should be a matter for individual Member States and national competent authorities. If, however, an EU-wide application of the HBS is considered to be appropriate by policy makers, we believe guidance should be provided on: <ul style="list-style-type: none"> • Items which should be allowed for in the best estimate of sponsor cashflows • What future payments from the sponsor to the IORP should be allowed for • Modelling the default of the sponsor • Modelling the future deficit of the IORP and how this should affect sponsor payments • Modelling recovery on default 	
Q48	Are there any other issues in relation to stochastic models, which you believe should be covered? No. There are no further issues that we would wish to have covered.	
Q49	Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate? We believe this method may give a broad indication of the value of sponsor support in some situations. However, this method results in an HBS which does not balance, which we do not believe would be acceptable in the scenario where the HBS is being used to set recovery contributions.	
Q50	As EIOPA has provided a model for IORPs to derive a value using this specification as long as they provide the above input data, what more should EIOPA do to encourage use of this approach where appropriate? We do not believe EIOPA should do anything further to encourage the use of this method. This is a matter for individual Member States and national competent authorities.	
Q51	Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate? We believe this method may give a broad indication of the value of sponsor support in some situations. However, this method results in an HBS which does not balance, which we do not believe would be acceptable in the scenario where the HBS is being used to set recovery contributions.	

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Q52	As EIOPA has provided a model for IORPs to derive a value using this specification as long as they provide the above input data, what more should EIOPA do to encourage use of this approach, where appropriate? <i>We do not believe EIOPA should do anything further to encourage the use of this method. This is a matter for individual Member States and national competent authorities.</i>	
Q53	Do stakeholders believe that this approach is a suitable simplified method for determining sponsor support? In what circumstances is it appropriate? In what circumstances might it not be appropriate? <i>We believe this method may result in suitable results for some IORPs in some conditions but is unlikely to be able to deal with all potential circumstances. For this reason, we support a more general principles-based approach.</i>	
Q54	Should EIOPA produce spreadsheets to enable IORPs to use this simplification? <i>We believe spreadsheets could be useful to ensure the model is interpreted consistently. This is a matter for individual Member States and national competent authorities.</i>	
Q55	Do stakeholders believe that this approach is a suitable method for determining sponsor support? In what circumstances is it appropriate? In what circumstances is it not appropriate? <i>We believe this method may result in suitable results for some IORPs in some conditions but is unlikely to be able to deal with all potential circumstances. For this reason, we support a more general principles-based approach.</i>	
Q56	Do the proposed adaptations to this option overcome the criticisms? Should EIOPA produce spreadsheets to enable IORPs to use this simplification? <i>We believe spreadsheets could be useful to ensure the model is interpreted consistently. However, we remain unconvinced that the proposed adaptations would overcome the criticisms. In particular, the proposed metrics could still result in inappropriate cliff-edges and may be open to unwanted manipulation or result in inappropriate results. Any approach needs to retain enough flexibility to reflect any specific circumstances of a given IORP. Therefore, this is a matter for individual Member States and national competent authorities.</i>	
Q57	Do stakeholders agree that a simplified one-size-fits-all approach for the calculation of maximum sponsor support is not possible and so the best approach is the proposed principles-based approach for including sponsor affordability? If not, please explain. <i>We agree that it is not possible to place a meaningful ,unique' number on sponsor support. Had it been so, then those countries that have a strong reliance on such support for the protection of the pensions of its citizens would have done so. However, we disagree with the implication that it follows that there should be an EU-wide „proposed principles-based approach“. Sponsor support should be treated as a balancing item in all cases – unless individual Member States and their supervisory authorities consider appropriate to do</i>	

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	<p>otherwise. Even where a Member State decides that in some cases it may be appropriate to value sponsor support, it can then decide on the appropriate principles for such a valuation. EIOPA has no formal role in this area.</p>	
Q58	<p>In respect of a further quantitative impact assessment, would stakeholders like EIOPA to define the parameters to use for maximum sponsor support? If yes, how could EIOPA improve the approach set out in the previous QIS? We believe that further analysis will be required before a further quantitative impact assessment to identify the data required to set the parameters to achieve the objective of the HBS.</p>	
Q59	<p>Do stakeholders think that other options should be considered to determine a value to be used to assess overall sponsor affordability? We believe that the balancing item approach is more appropriate in most circumstances. Overall sponsor affordability is difficult to precisely quantify and should be assessed more broadly against the result of the balancing item approach.</p>	
Q60	<p>Do stakeholders believe that the approaches presented cover the full range of possibilities to estimate sponsor default probabilities? If not, what specific alternative approaches would stakeholders suggest? We believe the options presented are a reasonable range of approaches for estimating sponsor support probabilities.</p>	
Q61	<p>What in stakeholders views is the appropriate time period on which to consider possible payments from sponsors for the calculation of sponsor support? Please explain. We believe that this should vary according to national regime and sponsor approach. For some sponsors, short recovery periods may not be possible, whereas long recovery periods can provide better outcomes for the IORP than immediate sponsor default.</p>	
Q62	<p>Please provide your views on this suggested approach. The suggested approach is reasonable, but this method should also include the flexibility to allow for more complex scenarios than can be allowed for by simple apportionment. The approach should be principles based. There could be difficulties with this method where the funding position of the various IORPs differs and the willingness of the sponsor to fund some of the IORPs over others varies.</p>	
Q63	<p>Are there any other suggestions on how to deal with single sponsors with multiple IORPs? Sponsor support should be treated as a balancing item in all cases – unless individual Member States and their supervisory authorities consider appropriate to do otherwise. Even where a Member State decides</p>	

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	that in some cases it may be appropriate to value sponsor support, it can then decide on the appropriate principles for such a valuation. EIOPA has no formal role in this area.	
Q64	Please provide your views on this suggested approach. The suitability of this approach will vary by IORP.	
Q65	Are there any other suggestions on how to deal with multiple employer IORPs? Sponsor support should be treated as a balancing item in all cases – unless individual Member States and their supervisory authorities consider appropriate to do otherwise. Even where a Member State decides that in some cases it may be appropriate to value sponsor support, it can then decide on the appropriate principles for such a valuation. EIOPA has no formal role in this area.	
Q66	Please provide your views on this suggested approach. This approach appears reasonable in principle and should be carried through to the balancing item approach.	
Q67	Please provide your views on this suggested approach. The suitability of this approach will vary by IORP.	
Q68	Are there any other suggestions on how to deal with not-for-profit entities? Sponsor support should be treated as a balancing item in all cases – unless individual Member States and their supervisory authorities consider appropriate to do otherwise. Even where a Member State decides that in some cases it may be appropriate to value sponsor support, it can then decide on the appropriate principles for such a valuation. EIOPA has no formal role in this area.	
Q69	Pension protection schemes Do stakeholders agree with the above comments on the options to value pension protection schemes? If not, please explain. In principle we believe that it is relevant to take account of the value of pension protection schemes – because it is relevant to the overall security of the pension promise from the perspective of the member. However, <i>how</i> to do so is not readily apparent.	
Q70	Which of the options to value pension protection schemes do stakeholders prefer? We believe that how a PPS should be valued needs to be considered further. More work is also needed to determine how complicated such a valuation would be and, therefore, how costly. Only then could an adequate assessment be made as to whether this cost it justified by any benefit to the members. Our starting point would be that such an assessment is not easy and of highly questionable use to the member. It follows, that this calls into question the viability of the HBS at all – as to include the PPS is challenging, but to exclude it would be nonsensical given the value it has to the member in relation to security of the	

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	promised benefits.	
Q71	<p>Do stakeholders think a pension protection scheme could in principle be considered a balancing item on the holistic balance sheet, if considered as a separate asset on the holistic balance sheet?</p> <p>Yes, in principle. To this end, it seems to make any HBS assessment irrelevant for those countries that provide an appropriate PPS.</p>	
Q72	<p>Components of supervisory framework</p> <p>If it was decided to establish EU capital/funding requirements as part of pillar 1, would there in the stakeholders' view be a role for the holistic balance sheet? Please explain why and, if yes, what that role should be.</p> <p>We strongly reject the idea of establishing EU capital/funding requirements for IORPs. The existing funding and supervisory regimes in individual Member States should already provide sufficient protection for members/participants. Amending these has associated costs (both initial and on-going) and no demonstrable additional benefit. Any plan to harmonise regimes is unsuitable and will be detrimental to long term investment, growth and job prospects in the EU.</p>	
Q73	<p>Do stakeholders believe that the holistic balance sheet should be used as a risk management tool as part of pillar 2 requirements? Please explain.</p> <p>IORPs should be able to develop risk-assessment and risk-management tools that are appropriate to the specific circumstances of their arrangements. At an EU-level, any requirements under pillar 2 should be principles-based and should not stipulate the HBS as the only appropriate risk management tool, as there may be more other, more suitable tools available to different IORPs.</p>	
Q74	<p>Do stakeholders agree that the outcomes of a pillar 2 assessment should be publicly disclosed as part of pillar 3 requirements?</p> <p>No, public disclosure of the outcomes of a pillar 2 assessment should not be a requirement. The HBS is complex and it is difficult to see how its disclosure would facilitate members making any informed decisions. Disclosure also risks the information being misunderstood and mis-used, with potential adverse implications for share prices and, in turn, long term investments, growth and job prospects in the EU.</p>	
Q75	<p>Do stakeholders agree that competent authorities should be empowered to take supervisory action based on the pillar 2 assessment of the holistic balance sheet? Please explain and, if yes, what action?</p> <p>The competent authorities in the UK already have sufficient powers to call for information and, in the light of that information, to then take enforcement action where necessary. These include powers to address any governance (pillar II) short-comings, including – in extremis – replacing those running IORPs. Furthermore, the NCA can force the IORP to modify future accrual (including cease accrual) if necessary – as</p>	

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	well as other many other measures relating to funding provisions.	
Q76	Which of the two options for recognising non-legally enforceable sponsor support do stakeholders support? Please explain why you support this option. As such support continues to have value, it seems sensible for national competent authorities to include this within an ,HBS' style framework where they consider it appropriate. Clearly valuing such support is challenging and most appropriately determined, again, at Member State level.	
Q77	We support option 1 because, as stated at 5.51 of the consultation document "ignoring protection by a pension protection scheme would neglect an important source of security for members and beneficiaries". Quite how it would be taken into account is not clear cut. We note that at 5.51, EIOPA also states that a minimum level of technical provisions could be specified to be covered by financial assets in order to avoid moral hazard – whereby IORPs deliberately hold inadequate or inappropriate financial assets. This is something that should be determined by each Member State in relation to its own social and labour law and, in particular, its inter-relationship with the protection afforded by the Pension Protection Scheme. We note that, in particular, in the UK the national competent authority has several legal objectives, which includes protecting the interests of the Pension Protection Fund. Imposing an EU-wide basis for the supervisory framework and, in particular, any capital requirements would upset the balance in objectives that has carefully be crafted as appropriate to the UK's national pension system.	
Q78	Do stakeholders agree that pure discretionary benefits should not be included on an IORP's pillar 1 balance sheet, as these do not represent a part of the benefit promise that needs to be protected by quantitative requirements? If not, what alternative options would you suggest? Agreed.	
Q79	Which of the three options for recognising mixed benefits do stakeholders support? Please explain why you support this option. This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q80	Which of the three options for recognising benefit reduction mechanisms do stakeholders support? Please explain why you support this option. This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q81	Are there any additional options that stakeholders believe should be considered?	

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	This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q82	Do stakeholders agree that off-balance capital instruments should always be eligible to cover the SCR? If not, what alternative options would you suggest? This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q83	Do stakeholders agree that surplus funds should always be recognised on an IORP's balance sheet and could always be used to cover capital requirements? If not, how would you suggest to treat surplus funds in this respect? This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q84	Do stakeholders agree that subordinated loans should always be recognised on an IORP's balance sheet and could, bar possible future decisions to introduce restrictions, be used to cover capital requirements? If not, how would you suggest to treat subordinated loans in this respect? This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q85	In the stakeholders' view should the minimum requirement for the level of liabilities to be covered with financial assets be based on the Level A technical provisions or the Level B best estimate of technical provisions? Please explain. This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q86	If the Level B best estimate were to be used, in the stakeholders' view should it apply to all IORPs or should its use be restricted to IORPs which dispose of certain security and adjustment mechanisms, be subject to prior approval of the national supervisor or applied as a member state option? Please explain. This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q87	In the stakeholders' view should the level of technical provisions that needs to be covered with assets (incl. security mechanisms), and that potentially serves as a basis for the SCR, be based on Level A technical provisions or on the Level B best estimate of technical provisions? Please explain. This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.	
Q88	If the Level B best estimate were to be used, in the stakeholders' view should its use be restricted to IORPs	

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	<p>which dispose of certain security and adjustment mechanisms, be subject to prior approval of the national supervisor or applied as a member state option? Please explain.</p> <p><i>This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.</i></p>	
Q89	<p>Do stakeholders believe it would be a sensible approach for member states to specify additional requirements regarding the funding with (financial) assets through national social and labour law, instead of through national prudential regimes? Please explain.</p> <p><i>This is for individual Member States and their national competent authorities to determine, if they consider it appropriate.</i></p>	
Q90	<p>Do stakeholders believe that there is scope for harmonising the recovery period regarding the level of technical provisions to be covered with financial assets on the EU level? Please explain.</p> <p><i>No. Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and their national competent authorities to determine as they consider appropriate.</i></p>	
Q91	<p>Do stakeholders think that the recovery period regarding the level of technical provisions to be covered with financial assets should be short or cover an extensive period of time? Please explain.</p> <p><i>Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and their national competent authorities to determine as they consider appropriate.</i></p>	
Q92	<p>In the stakeholders' view how long should the more extensive recovery period be and should it be restricted to IORPs which dispose of certain security and adjustment mechanisms and/or be subject to prior approval of the national supervisor? Please explain.</p> <p><i>Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and</i></p>	

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	their national competent authorities to determine as they consider appropriate.	
Q93	<p>Do stakeholders believe that there is scope for harmonising the recovery period for meeting the SCR on the EU level? Please explain.</p> <p>No. Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and their national competent authorities to determine as they consider appropriate.</p>	
Q94	<p>In the view of stakeholders should the recovery period in the event of non-compliance with the SCR be short or cover a more extensive period of time? Please explain.</p> <p>Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and their national competent authorities to determine as they consider appropriate.</p>	
Q95	<p>In the view of stakeholders how long should the more extensive recovery period be and should it be restricted to IORPs which dispose of certain security and adjustment mechanisms and/or be subject to prior approval of the national supervisor? Please explain.</p> <p>Occupational pension (pillar II) provision varies hugely from Member State to Member State. In some countries it is non-existent or very limited; usually where there is a significant replacement ratio from State pension (pillar I) provision. In other countries occupational pensions are common. National Competent Authorities and individual Member States are entirely capable of ensuring that adequate funding and protection measures are in place. Consequently, this is a matter that is for individual Member States and their national competent authorities to determine as they consider appropriate.</p>	
Q96	<p>Do stakeholders agree that IORPs should be required to submit a recovery plan if capital/funding requirements are not met or should more specific supervisory responses be specified on the EU level? Please explain.</p> <p>Any requirements set at an EU level on supervisory responses should be purely principles-based. The detail of how supervisory responses will be implemented (which may include, but is not limited to, submitting a recovery plan) should be determined by the relevant national supervisor. More detailed action should not</p>	

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	be specified at an EU level as a one-size-fits-all supervisory response is unlikely to capture all of the key variables of the local environment in which IORPS operate.	
Q97	<p>What is the view of stakeholders on the potential impact of a possible future European prudential framework for IORPs on existing contractual agreements and national social and labour law?</p> <p>We believe the impact of a possible future European prudential framework will be significant if applied to existing schemes and will have a significant adverse effect for long term investment growth and job prospects. We therefore wholeheartedly support the use of grandfathering to reduce the impact - the new requirements should not apply to either the accrued rights or future rights under any scheme established before any such rules potentially come into force.</p>	
Q98	<p>In the stakeholders' view is there scope for transitional measures in order to mitigate the potential impact of a possible EU prudential regime on existing contractual agreements and national social and labour law?</p> <p>In the absence of grandfathering then we strongly support the use of lengthy transitional periods to reduce the impact of any future possible EU prudential regime. This will allow IORPS, investment markets and labour markets to adapt to a new framework and develop appropriate responses in as cost-efficient a manner as is possible.</p>	
Q99	<p>Do stakeholders have any general comments on (the description of) example 1?</p> <p>The framework outlined in example 1 is not suitable as it contains a number of inconsistencies and fails to take into account key features of IORPs that make them distinctly different to other financial institutions. This example attempts to overlay a "solvency 2" type framework onto IORPs without taking into account features such as sponsor support, benefit reduction mechanisms and pension protection systems. This is not an acceptable approach.</p> <p>All recovery mechanisms have to be included in order to be able to calculate the HBS, should it be introduced. Excluding such options from the proposed Level A assessment of technical provisions and the associated eligible assets causes inconsistencies in the proposed construction of the HBS (as defined in this example) that make it untenable.</p> <p>To determining eligible assets in this way and only allowing sponsor support to cover the SCR rather than Level A technical provisions will result in significant cost increases for IORPS and their sponsors (and not only recognized as balance sheets items for IORPs) resulting in:</p> <ul style="list-style-type: none"> • A significant increase in the likelihood that sponsors will close or reduce the value of benefits accrued as a way of managing costs. This would be detrimental to both national and cross border 	

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	<p>provision (as acknowledged by EIOPA in 5.197)</p> <ul style="list-style-type: none"> • An incentive to invest more heavily in low-risk, liquid, closely matched assets to minimise the additional funding requirement. This would likely impact the market-price for such assets (further increasing the cost of funding) and discourage schemes from investing in longer-term growth assets such as infrastructure. • Wider consequences for sponsors as a result of the additional capital requirements, including: significant negative impacts on capital spending, corporate cash flow, corporation tax payments, wages and employment. <p>In addition, the proposed 1 year recovery period would amplify these economic impacts and further increase as it is very short and does not do justice to the long-term nature of IORPs.</p>	
Q100	<p>Could example 1, in the view of stakeholders, be used for all IORPs in the EU?</p> <p>No. The implementation of the framework outlined in example 1 would have significant detrimental micro and macro-economic impacts (such as significantly reduced on capital spending, corporate cash flow, corporation tax payments, wages and employment) that would be unmanageable in many Member States.</p> <p>In addition, beyond the economic implications, we also note that this solvency framework would seriously interfere with existing pension scheme contracts as well as on national social and labour laws in many Member States.</p> <p>The HBS, if it were to be introduced, should not harm existing – and often very well established – pension systems.</p>	
Q101	<p>Do stakeholders have any general comments on (the description of) example 2?</p> <p>The ability of Member States to define considerably long recovery periods for underfunding situations, reflecting the particular circumstances and features of IORPs in each jurisdiction is a welcome addition, however the example 2 still has a number of flaws that make it untenable.</p> <p>The fact that PPS and benefit reductions in the event of sponsor default cannot be taken into account is unacceptable - all recovery mechanisms need to be included in order to calculate the HBS (if introduced) and develop suitable recovery plans (if needed).</p> <p>It is not appropriate to include the SCR when these recovery mechanisms are not allowed for. In addition, unless sponsor support can be used as a balancing item, it will be challenging to place a sensible market-</p>	

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	<p>consistent value on the long term commitment made by the sponsor.</p> <p>It is also not clear to us how the level B technical provision could be combined with market-consistent valuation of many of the different options in the pension contract.</p>	
Q102	<p>Could example 2, in the view of stakeholders, be used for all IORPs in the EU?</p> <p>No. Whilst this example framework may mean that Member States are able report results on a consistent measure, the requirement to report the HBS on a risk-free basis to the regulator and members with no attaching regulatory response adds significant cost for no real additional value. It is not clear how the highly technical HBS would be useful to members or increase consumer protection.</p> <p>This scenario gives flexibility to individual member states to build in suitable prudential requirements above the minimum where appropriate, but in others it could be significant , which goes against the principle that the HBS – if introduced – should not harm existing pension systems.</p> <p>Due to the likelihood of different provisions applying in different member states, it is probable that the full funding requirement would be enforced under this framework and as such there would be no real incentive for increased cross-border activity.</p>	
Q103	<p>Do stakeholders have any general comments on (the description of) example 3?</p> <p>The inclusion of the impact of PPS is a welcome addition, but the HBS cannot be used for capital requirements, since it contains a number of inconsistent elements. It includes an SCR and some options are left out of the balance sheet, thus causing inconsistencies in the valuation of the options on the HBS. And unless sponsor support can be used as a balancing item, it will be challenging to place a sensible market-consistent value on the long term commitment made by the sponsor.</p> <p>In addition, it appears the outcomes of pillar 2/3 calculations can result in additional solvency requirements (at least of qualitative character but these could also induce additional capital needs). We do not agree with this approach.</p> <p>The funding requirements described in this example are therefore potentially substantially higher than the current requirements for many Member States, which could have a significant impact on both the IORP itself and at a macro-economic level.</p> <p>The approach of example 3 with one framework for pillar 1 and another framework for pillar 2/3 is also</p>	

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	<p>quite complex and bureaucratic, especially if additional national regulation rules shall also apply. This additional complexity will significantly increase costs to a level where the cost-benefit relationship is not acceptable.</p> <p>The HBS is more suited to a being a risk management tool, however even this, as drafted in example 3 requires further clarification. Example 3 includes future accrual of benefits and accompanying future contributions. Since it is not clear how these will develop, IORPs will be required to make a lot of additional assumptions about future development of these variables, which introduces the potential for significant variance between member states.</p>	
Q104	<p>Could example 3, in the view of stakeholders, be used for all IORPs in the EU, taking into account national specificities?</p> <p>The HBS, as described in all 6 examples put forward, is not usable for setting capital requirements. In principle, the HBS could possibly be used as a risk management tool, but needs more thought and developing before it is ready to be implemented across all Member States.</p> <p>It should be noted that under this framework, as currently drafted, IORPs would be incentivised to invest more heavily in low-risk, liquid, closely matched assets to minimise the additional funding requirement. This could impact the market-price for such assets (further increasing the cost of funding) and discourage schemes from investing in longer-term growth assets such as infrastructure.</p> <p>In addition, it is difficult to see how this complex and costly framework would encourage cross border provision. Under this framework, EIOPA notes that they are likely to maintain the 100% funding requirement for cross-border schemes, which will likely discourage cross border provision.</p> <p>Furthermore, a lack of clarity on what actions national competent authorities can take on the reported results of a HBS to demand modifications to make the scheme “sustainable” provide little incentive to increase cross-border provision.</p>	
Q105	<p>Do stakeholders have any general comments on (the description of) example 4?</p> <p>Relative to example 3 the inclusion of sponsor support, together with allowance for benefits to be reduced on sponsor default and coverage provided by PPS, are welcome additions. Also, the absence of additional reporting requirements under Pillar’s 1 and 2 is an improvement. Nevertheless, this framework is not usable in its current form as it still contains some inconsistent elements. For example, it includes an SCR</p>	

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	<p>when some options are still left out of the balance sheet (mixed benefits and pure discretionary benefits) or are not relevant in some Member States, thus causing inconsistencies in the valuation of the options on the HBS.</p> <p>Furthermore, we do not understand why the recovery period should be set at 1 year – recovery periods should be determined at a national level taking into account the specific circumstances of the social and regulatory environment in which the IORP operates. Furthermore, it is unclear why the recovery period can be extended through national social and labour law but not within the national regulatory rules.</p>	
Q106	<p>Could example 4, in the view of stakeholders, be used for all IORPs in the EU?</p> <p>No. This framework is not usable, since it contains some inconsistent elements and the valuation of those elements which are included would be very complex (unless the balancing item principle was more widely adopted). In addition,</p> <ul style="list-style-type: none"> • Whilst some of the additional funding requirements may be mitigated by allowance for potential benefit reductions on default in some Member States, this scenario is likely to result in increased funding requirements, particularly for IORPs with low sponsor support values as compared to solvency liabilities, or where placing a value on sponsor support is particularly difficult (eg charitable organisations or multi-employer schemes). This, in turn could lead to a short to medium term increase on claims to pension protection schemes. • Under this framework, IORPs could be incentivised to invest more in low-risk, liquid, closely matched assets. This could impact the market-price for such assets (further increasing the cost of funding) and discourage schemes from investing in longer-term growth assets such as infrastructure. • It is difficult to believe scheme sponsors would be more willing to set up cross-border plans in an environment where funding costs are higher. 	
Q107	<p>Do stakeholders have any general comments on (the description of) example 5?</p> <p>The HBS is not suitable for determining Pillar 1 capital requirements. Attempting to directly replicate an insurance style solvency regime for IORPs is not appropriate, as it fails to take into account the nature of the promise and the long-term position of occupational pension schemes, particularly in countries like the UK, Germany and the Netherlands. The proposed approach may be appropriate for insurance contracts, as</p>	

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	<p>hypothetically all contracts could be cancelled at the same time, but for occupational pensions social and labour law does not allow early cancellations. So the current market valuation cannot be the sole determining factor.</p> <p>The HBS may be usable as a risk management tool for reporting under Pillar 2, although not in its current form – inclusion of an SCR, on top of level A provisions and a regulatory own funds requirement is not consistent with the methodology and it seems illogical to include an SCR in Pillar 2, as currently drafted. The positive side of the proposed Pillar 2 framework is that it would include all options (like conditional and mixed benefits, sponsor support and benefit cuts) in the HBS, but this would make it administratively complex and very hard to value if the balancing item principle is not more widely adopted.</p> <p>Furthermore, the public disclosure of what are quite complex calculations would likely lead to misinterpretations by members and beneficiaries since the results are neither easily explained nor understood, especially the effects of “market consistent” discount rates. The disclosure requirement is therefore not acceptable for IORPs and their sponsors.</p>	
Q108	<p>Could example 5, in the view of stakeholders, be used for all IORPs in the EU?</p> <p>No. The HBS is not suitable for setting and monitoring Pillar 1 capital requirements because it excludes options from the balance sheet – most notably sponsor support and pension protection systems. Any funding requirements derived on this basis would be substantially higher than the current requirements for the majority of EU member states. This would make the cost of funding pension schemes higher, which would discourage further provision and potentially lead some sponsors to become insolvent if they cannot meet these higher requirements. This would subsequently impact on any pension protection schemes and member benefits.</p> <p>Furthermore, all pension schemes would be highly incentivised to invest almost entirely in low-risk, liquid, closely matched assets. This is likely to impact the market-price for such assets (further increasing the cost of funding) and discourage schemes from investing in longer-term growth assets such as infrastructure.</p> <p>Given the above it is difficult to believe employers would be more willing to set up cross-border plans in an environment where funding costs are so high.</p> <p>The HBS may be usable as a risk management tool for reporting under Pillar 2, but further work would be needed before example 5 could be used and the disclosure requirements would need to be revisited.</p>	

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<p>Q109</p>	<p>Do stakeholders have any general comments on (the description of) example 6?</p> <p>This example is the most acceptable of all those presented, but even this has areas for improvement.</p> <p>The requirements under example 6 are identical to those under the current IORP directive, except that a HBS must be disclosed to the National Competent Authority. The NCA is then able to take action if this assessment demonstrates that the IORP’s pension promise is “unsustainable”, but it is not clear how this would be defined be different Member States or what form this action may take.</p> <p>The HBS could possibly be used as an instrument for risk management to obtain more insights into the relative risks of the balance sheet, but less complex methods like ALM, continuity analysis and stress tests would better achieve this goal. As a risk management tool, the cost and complexity of producing a full HBS are likely to outweigh the benefit - the application of the HBS and SCR calculations in pillar 2 are very costly.</p> <p>Furthermore, public disclosure for IORPs is not necessary providing there is appropriate (and proportionate) reporting to NCA’s and scheme members.</p>	
<p>Q110</p>	<p>Could example 6, in the view of stakeholders, be used for all IORPs in the EU?</p> <p>If the SCR component were to be left out, there is potential to use the framework set out in example 6 as a risk management tool on a EU-wide level, although simpler and more cost-effective methods are available and may be more appropriate. The level of risk reporting and disclosure should be determined at a national level taking into account the relevant market construction and local social and labour law.</p>	
<p>Q111</p>	<p>Possible simplifications</p> <p>Do stakeholders agree that there is scope for simplifications with regard to drawing up the holistic balance sheet? Which simplifications would you consider most important and in which situations?</p> <p>Yes, there is scope for considerable simplification, but perhaps a bigger issue is to establish what "problems" the HBS is trying to fix and then considering the advantages and disadvantages of the holistic balance sheet over the existing regime. If Example 6 is intended effectively to be as close as possible to the current regimes, why is maintaining the status quo not presented as an example for comment?</p> <p>Having answered the above question, should development of a HBS still be considered appropriate, we re-emphasise that it could be significantly simplified if the principles of proportionality and the concept of ‘a balancing item’ are used effectively in developing the specification for a HBS – this applies most directly to an IORP’s ability to recognise the full value of sponsor support as a legitimate source of funding for</p>	

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retirement provision.