

<b>Comments Template on Discussion Paper on Sponsor Support Technical Specifications</b>		<b>Deadline 31 October 2013 18:00 CET</b>
Name of Company:	Universities Superannuation Scheme	
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, in Word Format, 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>Universities Superannuation Scheme Limited is the corporate trustee for one of the largest pension funds in the UK with assets of approximately £38.6 billion. The scheme provides defined benefit pensions for universities and associated employers in the UK and it has close to 400 non-associated participating employers and more than 303,000 members, of which approximately 148,000 are active members.</p> <p><i>General</i></p> <p>We welcome the opportunity to respond to EIOPA on the matter of sponsor support and have highlighted a number of concerns in response to specific questions below. Whilst the Holisitc</p>	

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	<p>Balance Sheet (HBS) may be viewed as a useful tool in the management of an IORP, we believe that it is extremely difficult - if not impossible - to identify a formulaic approach which derives a single calculated value for sponsor support. A number of reasons for this are highlighted in our responses below.</p> <p><i>Existing UK system</i></p> <p>In the UK, a sophisticated regime has developed under which a trustee is required to undertake a thorough review of sponsor support offered to the IORP by its sponsoring employer(s). This involves consideration of historic financial information. However, other factors are taken into account, including:</p> <ul style="list-style-type: none"> <li>- financial forecasts for future years;</li> <li>- future business plans of the sponsoring employer(s);</li> <li>- relevant non-financial information;</li> <li>- the strength of the relationship between the IORP and the sponsor;</li> <li>- other IORPs for which the sponsor is responsible; and</li> <li>- a detailed dialogue between the IORP and sponsoring employer(s) takes place.</li> </ul> <p>This system allows the trustees to judge which are the best measures when determining sponsor support. This analysis then feeds into a holistic funding plan under which the trustee considers investment decisions and benefit issues.</p> <p><i>EIOPA model</i></p>	

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	<p>It is not clear how the proposed EIOPA model would deliver any extra insight into sponsor support compared to this current system. It could be argued that the alternative approach is overly simplistic and mechanistic. The assessment of sponsor support should rely on the judgement of the trustees supported by their professional advisors, so a broad principles based approach, rather than calculating a single number, should be adopted which would reflect the variety and diversity of IORPs. In addition, the proposed EIOPA model would result in an increase in operational costs of IORPs.</p> <p>We have completed questions below which relate to the relevant issues of USS. In addition, we have discussed in detail the content of this discussion paper with the NAPF and support the responses provided to EIOPA in their submission.</p>	
Q01.		
Q02.		
Q03.		
Q04.		
Q05.		
Q06.		
Q07.		
Q08.		
Q09.		
Q10.		
Q11.	<p>It is difficult to fully consider the implications of the alternative approach because the context in which it would operate has not been clarified. Two related points are noted below.</p> <p><i>Measurement of surplus/deficit under HBS</i></p>	

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	<p>As part of the QIS exercise in 2012/13, calculations of the HBS were made under different benchmarks or scenarios and a surplus or deficit was identified. However, the levels of deficits varied widely according to the benchmark or scenario. It is not yet clear which measurement of deficit is to be used in the event that the holistic balance sheet is implemented.</p> <p><i>Regulatory environment or context</i></p> <p>The regulatory context in which the HBS, and sponsor support valuation, would operate is not clear. For example, in the event that the value of sponsor support for an IORP falls below a specific percentage – say 85% so it is defined as weak or very weak – what would happen in terms of regulatory/supervisory responses?</p>	
Q12.	<p>There are a number of characteristics of USS (some of which are outlined in the EIOPA discussion paper) which are outlined below :</p> <ul style="list-style-type: none"> <li>- It is a multi-employer scheme operating on a last man standing basis ;</li> <li>- Sponsoring employers are non-associated yet operate in the UK Higher Education sector and are subject to similar influences (for example, government policy on Higher Education) ;</li> <li>- There are non-financial measures relevant to the strength of sponsoring employers, such as their positioning in UK and world education league tables;</li> <li>- Sponsoring employers very often sponsor more than one scheme. Some employers may operate a single-employer pension scheme or participate in other multi-employer schemes or contribute to public service schemes (some of which may be unfunded);</li> <li>- Sponsoring employers are funded by a combination of student fees, research grants,</li> </ul>	

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	<p>commercial enterprise and government funding. There is no formal guarantee against insolvency provided by the UK government to universities, although its response to such a scenario would be determined on an individual basis;</p> <ul style="list-style-type: none"> <li>- Sponsoring employers vary significantly in size, history and status (i.e. number of students, date of establishment, international reputations, specialisms); and</li> <li>- Many universities are set up as charities. All universities participating in USS are not-for-profit organisations.</li> </ul> <p>These characteristics may be found in other IORPs that operate in the UK. Although some of these characteristics are referred to in the EIOPA discussion paper, there would not appear to be a satisfactory way to factor these into the calculation of sponsor support. Some kind of adjustment at stage 1 to the credit steps may be suggested but this would appear to be rather arbitrary and could be applied inconsistently between different IORPs.</p> <p>Furthermore, there are a significant number of sponsoring employers that participate in USS. The time and resource required to collect and collate the data needed to value sponsor support under the alternative approach would be very significant, especially given the arbitrary nature of any formulaic output. If EIOPA does wish to proceed with this type of approach a great deal of further work would be required on the above areas.</p>	
Q13.	See Q12 above.	
Q14.		
Q15.		
Q16.		
Q17.		
Q18.	These credit ratios would be inappropriate for the purposes of determining a value for sponsor	

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	<p>support. Refer to the response under general comments for further detail on the existing system in the UK which looks at financial forecasts, in addition to historic information (such as income and assets).</p> <p><i>Asset and Income Cover</i></p> <p>This may not be a good proxy for sponsor support. Take the example of a high-tech, information technology business which is thinly capitalised as few fixed assets are held and the real value is contained in intellectual property and/or brands. The asset cover would be low and sponsor support may be identified as weak. This would not reflect the real value of the business and could lead to actions that would be damaging for the sponsoring employer and IORP. Similar weaknesses may be identified in respect of income cover.</p> <p>In any event it is future income cover, asset cover and other measures that would be relevant to sponsor support. Accordingly, it would be appropriate to use financial forecasts in addition to historic data. When considering historic data appropriate adjustments should be made to reflect reasonable predictors of future income cover, etc.</p> <p><i>Other relevant measures</i></p> <p>An important measure that would need to be considered is cash-flow, plus the ability of the sponsoring employer to provide increased cashflow if required.</p>	
Q19.		
Q20.		
	<p>A concern arises regarding the contribution payment periods in table 4, which appear to potentially undermine existing recovery plans.</p>	
Q21.	<p>If this approach to sponsor support was implemented, there would be a mis-match between (i)</p>	

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	<p>contribution obligations under the proposed alternative approach and (ii) actual recovery plan contributions payable by the sponsors (following discussions with their national supervisor).</p> <p>There is a risk that over time these contribution obligations would replace actual recovery plan contributions so undermining and disrupting agreements that have been reached between the IORP, its sponsors and their national supervisor.</p>	
Q22.		
Q23.		
Q24.		
Q25.		
Q26.		
Q27.		
Q28.		
Q29.		
Q30.	<p>The Solvency Capital Requirement represents a significant value in respect of UK IORPs and the loss absorbing capacity in the UK is the Pension Protection Fund (PPF). However, in contrast to benefit adjustment mechanisms in other states, a UK IORP will only fall under the PPF in the very worst case scenario, that is when all sponsoring employers under an IORP have become insolvent.</p> <p>It is not clear how this 'safety net' can be reflected in the valuation of sponsor support in stage 6 of the model.</p>	
Q31.		
Q32.		
Q33.		
Q34.		
Q35.		

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Q36.		