

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

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

Name of Company:	Zusatzversorgungskasse des Baugewerbes AG	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to DP-13-001@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to Discussion Paper on Sponsor Support.</p>		
Reference	Comment	
General Comment	<p>The Zusatzversorgungskasse des Baugewerbes AG (ZVK-Bau) operates the industry wide paritarian pension fund for the German construction sector of the western part of Germany and Berlin respectively (alte Bundesländer). It provides pensions for the employees based on sectoral collective agreements of general application (allgemeinverbindlich). Joint owners of ZVK-Bau are the social partners of the construction sector, two employer associations and the trade union.</p> <p>ZVK-Bau encompasses more than 53,700 companies, mostly SMEs. Only a tiny number of these companies are listed, while 80 % of them have less than 10 employees. Therefore they do not provide any balance sheet statements that contain the requested data like EBITDA etc. Not to mention that the legal form of many of</p>	

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these smaller companies is that of a non-incorporated firm that does not distinct between company capital and private property.

Sponsor support is provided by the construction sector as a whole. In effect this includes a pension protection system: via the collective agreement the whole industry provides pension security for the beneficiaries or holders of accrued rights whose employers went bankrupt. The scheme itself works as a Pension Protection Fund. There is dynamic within a whole industry sector where during the year hundreds of sponsors default while others – new companies - enter the scheme. In the end it does not make any difference where and in how many companies a beneficiary has spent his working life: he earns the pension benefit that reflects the time working in the construction sector. History proofs that ZVK-Bau provides of a working, de facto “Last-man-Standing”-design.

For us the only way to deliver a justified statement of sponsor support within industry wide schemes seem to be a concept that is based on the **legal and contractual framework** and an **assessment how sponsor support worked during the history of the IORP**. For industry wide schemes like ZVK-Bau the data requirements of an internal model should be proportional to the risk that the support could overcharge the sponsor: E.g. for IORPs where 0,01% of sponsors that stand for less than 1 % of contribution provide capital three times the IORPs technical provisions the data requirements to deliver proof for having sufficient sponsor support should be minimal and based on **qualitative** judgement and sampling. Otherwise the costs and efforts for the development of a (useless) number are not justified given the (marginal) gain of information.

Q01.

Yes. But this should not be the only way to conduct a valuation. Of course we accept that due to its optional nature the theoretical correct way to calculate the market value of the sponsor support is to use stochastic models. But we have already seen that the calculations do highly depend on the choice of the model. Different models may leads to totally different prices.

So as long as we do not have a glimpse how the “right” stochastic model should behave, we think the use of deterministic models is more appropriate to obtain some estimations for the market value of the sponsor support. In our opinion the use of

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	<p>deterministic models based on sound scenarios can even result in better market prices for the sponsor support. Moreover they are the only instrument smaller IORPs are able to handle without relying completely on external support.</p>	
Q02.	<p>Simplification 1 does not provide much relief. Therefore we predict that even with additional guidance the number of IORPs choosing this method will remain low. Regarding Simplification 1 and 2 industry wide schemes like ZVK-Bau are not able to assess the sponsor support data in an appropriate way. They need more simplifications like macro-economic data and / or pars-pro-toto calculations or sampling.</p>	
Q03.	<p>Since it seems to be difficult to come up with a sharp estimation of the maximum sponsor support it merely could be some sort of a control to avoid unrealistic results of other calculations. If this relatively poor reason justifies the enormous effort of calculating the maximum sponsor support seems highly unlikely.</p>	
Q04.	<p>Technically spoken wage is no appropriate estimator for sponsor credibility. For an industry wide scheme like ours wage may be nonetheless the only measure for estimating sponsor support because no other data are available. Future additional contributions to the IORP are more or less deferred wage increases. E.G. one could express the required value of sponsor support as a necessary increase of contribution. If this increase is only a minor part of expected rises of the future wage sum it is very likely that social partners will agree to grant the IORP this necessary additional contributions. Furthermore the wage sum of the industry can be measured relative to the total wage sum of the country to get an impression of the systemic relevance of the scheme.</p>	
Q05.	<p>In principle we agree that it is possible to link default probabilities to credit ratios. In practice this can be a very challenging approach, since we assume the credit ratios are dependent on the industry sector. Especially for industry wide schemes with a de facto Last Man Standing (LMS) principle like ours the concept is not elaborated sufficiently because the strength of the industry as a whole matters not that of any single company.</p>	
Q06.	<p>For industry wide schemes with a LMS the concept is not elaborated sufficiently because these numbers are derived from the history of single companies not from the history of a whole industry.</p>	

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Q07.	For industry-wide schemes like ours the wage sum of the industry relative to the total wage sum of the country could be of interest. Additionally industry wide schemes have historical information on sponsor default that nowadays is applied to calculate depreciation on outstanding contributions. If these quotas are reliable (e.g. are available for at least five years) and approved by auditors they may be applied for the calculation of the sponsor support. Market prices do not help in any way. IORPs should be allowed to develop own models of estimating and (back-) testing internal models based on historical evidence without too high standards for mathematical precision.	
Q08.	Timing brings another dimension and additional complexity in the calculation of the sponsor support. The minimal value added of this information for industry wide schemes does not justify the huge costs for information retrieval.	
Q09.	We believe that the concept of limited conditional sponsor support should be valued and included in the holistic balance sheet separately. We see a connection to the concept of "Last Man Standing (LMS)" in industry wide schemes like ours. E.G. this principle has been applied in practice all the time since the creation of ZVK-Bau. Social partners and sponsoring companies are acting accordingly. Therefore one can assume that this practice will be continued. So it should not be neglected in the calculation of the sponsor support.	
Q10.	Yes. We believe it to be highly specific to some IORPs. But without an evaluation of the procedures of sponsor support which take historical evidence into account the assessment would prove incomplete and misleading.	
Q11.	The alternative approach provides a way to work with nonrated sponsors. On the other hand for industry wide schemes even the data requirements of the alternative approach are impossible to handle. Therefore all alternative approaches need simplifications in form of macroeconomic data or for representation by "average companies" of that industry that might be derived by sampling.	
Q12.	The alternative approach tries to eliminate of course some of the concerns raised in the last QIS. We wish to make clear that nonetheless the problems of industry wide schemes are not addressed in this new approach adequately.	
Q13.	The problems of industry wide schemes should be addressed in more detail. The fact that e.g. ZVK-Bau has more than 53,700 financial independent sponsors is not treated in a sufficient manner. Therefore we require clear rules in what way we are allowed to use average numbers	

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	or macroeconomic data for the financial strength of our industry in the calculation of the sponsor support.	
Q14.	No comment.	
Q15.	No.	
Q16.	For industry wide schemes the provided information and guidance are not sufficient. E.G. the problems how to obtain und how to apply average estimatitions of the required ratios are still not unsolved. Statistic sampling might answer that question. But sponsoring companies nowadays do not have a legal obligation to provide data for that sampling exercise and their willingness to provide these data on a voluntary basis might prove poor.	
Q17.	Not for industry wide schemes.	
Q18.	For industry wide schemes based on sectoral collective agreements of general application (allgemeinverbindlich) we would like to mention that the required increase in contributions relative to the total wage sum might prove as a helpful ratio. Individually income and especially shareholder fund data of all sponsoring companies are impossible to acquire.	
Q19.	For ZVK-Bau as an industry wide scheme these parameters are impossible to acquire. Therefore they are inappropriate.	
Q20.	Macroeconomic data that are provided by e.g. national bureaus of statistic may be differently defined than the ones used by EIOPA.	
Q21.	Maybe historical evidence would work as an alternative approach.	
Q22.	We think that affordability is more suited. But in the end the concept should be based on historical evidence.	
Q23.	No known examples available.	
Q24.	The annual default probabilities are not suited for industry wide schemes. In particular the default probability of an industry (by the way: how is this defined?) is not generally linked to the default probability of a single company which belongs to the sector. Especially for industry-wide schemes applying a de facto Last Man Standing principle the concept is not appropriate. For every defaulting company newly founded companies take over. Outstanding contributions pose the only problem of this scheme. But if the scheme is based on collective equivalence too even outstanding	

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	contributions are provided for by the other scheme members and does not pose a problem neither.	
Q25.	No comment.	
Q26.	For industry-wide schemes applying a de facto Last Man Standing principle recovery rates are irrelevant. E.g. ZVK-Bau each year handles more than 1,000 defaults of construction sector companies without any difficulties or losses for the members and beneficiaries. The scheme provides its own pension protection.	
Q27.	Yes. Financial strength and support of all subsidiaries feed into the group holding. Necessary financial data are available often only at holding level.	
Q28.	Guidance is always welcome. But we expect that the calculations have to cover very individual situations. Therefore the guidance has to be very elaborated.	
Q29.	No reasons known.	
Q30.	For industry wide schemes applying a de facto Last Man Standing principle the approach is irrelevant.	
Q31.	Industry wide schemes need a different, more macroeconomic oriented set of sensitivity parameters.	
Q32.	The sponsors of industry wide schemes or generally the multi employer situation is not treated in a sufficient manner.	
Q33.	It seems to be clear that there never will be exact calculations. So there is a need to accept approximations based on historical evidence and former sponsor behaviour. This replaces the quantitative approach by a qualitative approach. A qualitative approach is more suited for the required information and therefore much more efficient than a complicated but wrong quantitative approach.	
Q34.	Since the very starting point of the approach does not fit for industry wide schemes applying a de facto Last Man Standing principles we suggest to change the methodology.	
Q35.	For industry wide schemes applying a de facto Last Man Standing principle the concept is not applicable. Partly due to data requirements and calculation efforts, partly due to an inappropriate concept that cannot take into account the legal structure and obligations of the sponsors within the scheme the sponsor support calculations would lead to a cost and time consuming process without information value.	
Q36.	In our case (construction sector) data of the German central bank for some average accounting numbers exist. They may become a basis to estimate some credit ratios.	

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Additionally we are able to provide wage sum data. Nevertheless we fear that the approach will only lead to a cost and time consuming process without real information value.