	Summary of Comments on EIOPA-CP-12/003: Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive: Consultation Paper **Q10 - Q12**	**EIOPA-BOS-12/086** **2 October 2012**

EIOPA would like to thank OPSG; AbA; AEIP; Aon Hewitt; Association of British Insurers; Association of Consulting Actuaries UK; Association of French Insurers (FFSA); Balfour Beatty plc; Barnett Waddingham LLP; BASF SE; Bayer AG; Bayerischer Industrieverband Steine und Erden e.V.; BDA; BdS – Bundesverband der Systemgastronomie e.V.; BVPI-ABIP; BlackRock; Bosch Pensionsfonds AG; Bosch-Group; BT Group plc; BTPS Management Ltd; Italian organisations of actuaries; Deloitte; Deutsche Post DHL; Dexia Asset Management; EEF; EAPSPI; EFRP; Federation of the Dutch Pension Funds; Financial Reporting Council; German Confederation of Skilled Crafts; German Institute of Pension Actuaries; GESAMTMETALL; Groupe Consultatif Actuariel Européen; Hundred Group of Finance Directors; IBM Deutschland Pensionsfonds AG; ICAEW; Institute and Faculty of Actuaries; Insurance Europe; KPMG LLP (UK); Mercer Ltd; National Association of Pension Funds (NAPF); Pension Protection Fund, UK; Pensions-Sicherungs-Verein VVaG; Punter Southall; Railways Pension Trustee Company Limited (RPTCL); RWE Pensionsfonds AG; Tesco Plc; Towers Watson B.V.; Towers Watson GmbH; Towers Watson UK; Trades Union Congress; Universities Superannuation Scheme Limited; UVB; vbw; VhU; and Zusatzversorgungskasse des Baugewerbes AG.

The numbering of the paragraphs refers to Consultation Paper No. EIOPA-CP-12/003

No.	Name	Reference	Comment	Resolution
1.	OPSG	Q10.	This question highlights the different sponsor relationships between Member States. It implies that these technical specifications could be possible in one Member State, but not in the other. The OPSG have some serious concerns (see also Q3) with the principles for the valuation of sponsor support:	Noted.

			☐ Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour. ☐ In reality the outcome will be bifurcated, i.e. the sponsor can either cover or not cover the deficit. In some Member States the sponsoring company has to cover the deficit anyhow. Unless the sponsor is bankrupt the sponsor cannot escape from this legal obligation. ☐ This legal obligation demonstrates why the Holistic Balance Sheet approach on the level of the IORP does not always make sense, for example, where an IORP has two different pension schemes with two different sponsoring undertakings. Some of the questions of the QIS lead to the valuation of the sponsoring company, but how do you value the sponsor covenant, where there is more than one sponsor (e.g. industry-wide pension schemes) or how do you value the sponsor support for a public pension scheme? An approach linked to the schemes irrespective of the pension provider could make more sense. Otherwise – from the perspective of some different Member States – some schemes and thus members are treated differently than others. Therefore, the question arises if the HBS approach should be used for supervision of IORPs or of pension schemes. More guidance with respect to this question would be desirable. ☐ Though far from perfect (due to bifurcation) an assessment of the sponsor covenant could be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. ☐ Alternatively if the sponsor is a public and listed company	

			with credit default swaps. The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. According to the OPSG Pension Protection Schemes (PPSs) should be incorporated as an asset on the HBS. We endorse the notion of HBS 6.71, if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap. This would be a simplification for the IORPs and would avoid unnecessarily complex HBS accounting. Alternatives for the proposed valuation and the HBS are Asset Liability Management (ALM) studies, scenario analysis and/or stress testing. These are simpler methods than those of the HBS, because the HBS implies probability weighted mark-to-market valuation, which requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed to consider how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
2.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q10.	No. We do not agree that security mechanisms should be valued on the basis of probability-weighted average discounted expected payments from the sponsor and the pension protection scheme. Firstly, this approach overlooks the fact that, in reality, the value of security mechanisms is digital, either they function or they don't. This means that a sponsor will continue to support a scheme up to the point where it is no longer financially	Noted.

			feasible, at which point it will be closed and support will cease. Of course the deficit funding procedure, which is omitted from the technical specifications, will have an impact on this. Having to fund the entire deficit tomorrow with cash is a different proposition to having to increase the next x years of contributions by y%, even if the present value might be the same. In addition, EIOPA should take into account that a prudent and sustainably acting sponsor company will financially support an IORP not only to the extent that liabilities are covered but also with respect to coverage of a capital requirement. Otherwise benefits would have to be reduced and given the subsidiary liability of the employer, these would simply land on the balance sheet of the sponsor. The valuation of sponsor support as proposed by EIOPA is not robust due to the number of assumptions that need to be made. Moreover, the input data required would mostly not be readily available. For example, EBTDA is a figure that is usually only published with respect to publicly listed and consolidated entities. Benefit promises, however, are made at the legal entity level and it is only the legal entity that is liable. Therefore, a consolidated EBTDA figure is irrelevant for the purposes of this calculation. Non-publicly listed entities are not required to prepare financial statements in accordance with IFRS and, therefore, would not publish an EBTDA value.	

			To the extent that the value of sponsor support can only be estimated for a few large corporates, the question arises whether the proposed method represents discrimination of SMEs.	
3.	AEIP – The European Association of Paritarian Inst	Q10.	No, AEIP does not think such a market consistent valuation of the sponsor support and the pension protection scheme is adequate. First of all, to evaluate the sponsor support only through its discounted future cash flows is a limited and partial, as well as very complex and burdensome exercise. Moreover, such a methodology does not take into consideration the bargaining process between the social partners, which is crucial in guaranteeing sponsor support. AEIP would also point out that to calculate the EBTDA and the future cash flows of sponsor undertakings require industrial and marketing information and skills which European IORPs do not necessarily have because they are not needed for their business operations. Furthermore, in order to calculate sponsors' future cash flows, there is a need to access extremely sensitive data that the sponsor might not be willing to disclose, especially in the case of multi-employer and industry-wide schemes. Moreover, the proposed methodology does not clarify how multiemployer, industry-wide IORPs that could consist of tens of	Noted.

			thousands of enterprises should evaluate their sponsor support. Since only a small minority of the sponsoring undertakings are listed most of the data is not available even for the sponsors themselves. The same problem applies to IORPs backed by not-for-profit or public organisations. As already mentioned above, the contribution and any raises of the contribution in industry wide pension schemes based on collective agreements are decided upon during collective bargaining. Therefore every raise of the pension funds contribution is part of package that consists of wage raises, pension funds contribution, working time etc. In total the parts sum up to the productivity progress within the industry modified by the bargaining powers of social partners. Every raise of pension funds contribution is financed not only by the sponsoring enterprises but by the employees too because the latter refrain from getting salary growth of the same amount. Therefore sponsor support cannot only be measured against financial resources but has to acknowledge that the whole industry – employers and employees - support the scheme. The Holistic Balance Sheet introduces also the risk of financial contamination between IORPs and employers. We see the danger that somehow this once-in-two-hundred-years event finds its way in the balance sheet of the sponsor. This would evaporate the willingness of sponsors to make pension promises any more. We thus invite the EIOPA to reflect if it is needed to evaluate the sponsor support, together with the pension protection scheme, with a hard figure. We suggest using it as	

			closing element of the Holistic Balance Sheet.	
6.	Aon Hewitt	Q10.	We can understand the rationale for the approach suggested, but believe that it is likely to be very difficult to put in to practice. Also, treating the sponsor covenant as if it was just another fixed term corporate bond and valuing the expected payments in the same way as for any other bond holding (albeit a very large single investment) does not seem to be very "holistic". It does not take into account the possibility that the sponsor value might be many times greater than the expected deficit payments, and build this value into the holistic balance sheet. Further, under the approach taken, the starting point is to assume that the projected cash flows from the sponsor to the IORP have a discounted value which is no more than the IORP deficit. The value of these payments is then reduced to allow for the possibility of default. This ensures that the value placed on the sponsor covenant will always be less than the IORP shortfall, however big and strong the sponsor. It is difficult to see the purpose of such a calculation which seems designed to result in an HBS which does not balance. The QIS also does not clarify how the approach is adopted where one Company sponsors more than one IORP, or where a (sponsored) IORP covers employees (or former employees) from	Noted.

			a number of Companies. We accept the theory but it is likely to be difficult to put in to practice. In relation to employer support, inputs are non-standard or not readily available, and there is a significant risk that the standard simplifications and parameters proposed by EIOPA could lead to material mis-statements, for many different types of plan sponsor. Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities.	
7.	Association of British Insurers	Q10.	The valuation seems to be quite complex. The ABI questions how to achieve realistic assumptions about future profits of the sponsor and how this could be checked by the supervisors. It is already difficult for single-employer IORPs. For multi- employer IORPs it seems to be impossible without	Noted.

			further guidance and simplifications. The setting of probability parameters of sponsor default might be a rather difficult exercise – some additional guidance at national level (taking into account the national specifics) might be helpful.	
8.	Association of Consulting Actuaries UK	Q10.	It is unclear how the sponsor support will be valued for multi-employer schemes.	Noted.
9.	Association of French Insurers (FFSA)	Q10.	At this stage, FFSA has some questioning on the valuation of specific security mechanisms like sponsor support and pension protection schemes. Sponsor support The proposal of EIOPA to recognize sponsor support as an asset in the HBS is tailor-made for one to one relationship between an IORP and its sponsor. At this stage, it is unclear how multiple sponsorships would be taken into account and the value of the sponsor covenant in public sector pension schemes have to be valued. As an alternative or in addition to the sponsor support, an IORP should be allowed to be reinsured of all or part of its obligations. Pensions protection schemes Our understanding of the valuation of the potential contribution	Noted.

			of PPS as an asset in the HBS makes the entire coverage (according to specific rules attached to the PPS) could be asked by the IORP irrespectively of any systemic effect or multiple refunding calls. In that way, the same amount would be callable by IORPs linked to the PPS by several IORPs at the same time independently.	
10.	Balfour Beatty plc	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? Our concerns are that a number of the central parameters provided seem arbitrary and that this is likely to compromise the objective of market consistency. In addition, there is room for very different interpretations of the parameters, such as the expected future profits, which again seems to militate against the aim of market consistency.. We also reiterate the point that the complexity of the arrangements and corporate inter-relationships through which sponsor support is provided to IORPs militate against a formulaic approach to the assessment of sponsor support. .	Noted.
11.	Barnett Waddingham LLP	Q10.	Further consideration needs to be given to individual IORPs' circumstances, for example: ☐ Multi-employer pension schemes	Noted.

			☐ The definition of sponsor ☐ Sponsors which are non-profit making We note the need to consult further on specific parameters such as the recovery rate and would point to this as an example of why the timetable for implementation of a revised IORP directive is too short.	
12.	BASF SE	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? No. In its proposal EIOPA is striving to ascribe "market consistent" values to concepts that are in practice difficult if not impossible to quantify. Trying to do this leads to calculations that are far too complex and burdensome. Furthermore, we consider that the evaluation of the security mechanisms is too much assumption-driven. This makes the outcome very sensitive to any slight modification of the underlying assumptions. Against this background, we believe that the costs of calculating the values of the security mechanisms are not justified by the reliability of the results. Moreover, the input data required are not available in many cases. For example, EBTDA is a figure that is usually only	Noted.

			published with respect to publicly-listed companies. In addition, it will be also impossible to value the sponsor of multi-employer plans – particularly in the case when the sponsor consists of many SMEs. Besides this, we think that especially in cases where there is a sponsor support or a pension protection scheme, no calculations are required. These security mechanisms should be treated as a residual asset that fills the deficit shortfall between assets and liabilities including any capital requirement. However, being limited by EIOPA on three options within the Holistic Balance Sheet Approach to take into account for pension protection schemes, we believe that pension protection schemes should be explicitly considered in the HBS as a separate asset.	
13.	Bayer AG	Q10.	We think in general, that a high-quality pension protection scheme (e.g. like the German "Pensionssicherungsverein aG", which is financed by the whole community of companies of the total German economy) and/or the full support of a first-quality sponsor company should automatically close any gap in the Holistic Balance Sheet. In such an environment complicated calculations are superfluous. Especially the current way of calculating the sponsor support will turn out to be quite burdensome and complicated in many cases. If one generally follows the approach of the draft specifications (what we don't), it would be a reasonable approach to take the FULL Maximum Value of Sponsor Support	Noted.

			completely as own funds (and not only as ancillary own funds, as one option in the QIS suggests) into account. The motivation for this is, that a rationally and responsibly behaving sponsor company would in most cases also be willing to financially strengthen "its" IORP and to give money also to cover the SCR's (not only the liabilities), if otherwise a reduction of benefits would become inevitable, since this would have very negative consequences for the sponsor's image and in most cases, especially in Germany, the reduction of liabilities would have to be paid by the sponsor anyhow (because the sponsor stays liable for the whole promised benefit).	
14.	Bayerischer Industrieverband Steine und Erden e.V.	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method	Noted.

			that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary.	

			Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
15.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit.	Noted.

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			PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
16.	BdS – Bundesverband der Systemgastronomie e.V.	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour;	Noted.

			– In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer’s CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely	

			incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
17.	Belgian Association of Pension Institutions (BVPI-	Q10.	No. The set up and calculations as presented in this document are understudied/underanalysed and too burdensome. The related costs are not in line with the size of the Belgian IORPs where assets vary between 10 million € and 1.250 million €. Given the complexity, it is recommendable to apply a more simple standard model, in proportion to the small size of Belgian IORPs and to exclude the valuation of a number of balance sheet items in order to save costs.	Noted.

			Herewith some examples of unclarities in the context of the valuation of the sponsor convenant: ☐ We have no information what a recovery plan is looking like although it is part of this valuation (Recovery plan: when? Duration? Etc…) ☐ How to value this concept in the context of Local subsidiaries of multinational groups? Industry-wide plans? Multi-employer plans? (How to determine the rating? The company wealth? Multi-employer with/without solidarity? One or multiple holistic balance sheets? Public sector? Non-profit? Etc…) ☐ Will sponsor (be able to) disclose the necessary information to calculate the sponsor support? (eg. rules on disclosure for listed companies, etc.) Next to this we consider that the evaluation of the sponsor convenant is too much assumption driven and very dependant on the rating, which makes its outcome very sensible to any slight modification of any assumption. We suggest a further investigation of the sponsor support and could suggest to introduce a further simplification for the sponsor support: acting together with the pension protection scheme as the closing element of the HBS.	
18.	BlackRock	Q10.	Please see our General Comment above.	Noted.
19.	Bosch Pensionsfonds AG	Q10.	No. We do not agree that security mechanisms should be valued on the basis of probability-weighted average discounted	Noted.

			expected payments from the sponsor and the pension protection scheme. Sponsor support and pension protection schemes should be incorporated into the holistic balance sheets as assets, for more details see Q2.	
20.	Bosch-Group	Q10.	No. We do not agree that security mechanisms should be valued on the basis of probability-weighted average discounted expected payments from the sponsor and the pension protection scheme. Sponsor support and pension protection schemes should be incorporated into the holistic balance sheets as assets, for more details see Q2.	Noted.
21.	BT Group plc	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? As per earlier comments, it is impossible to comment when no explanation of how the HBS will be used has been provided. For sponsor support, it is clear that any formulaic approach will	Noted.

			be inaccurate and inappropriate for most IORPs. If an approach cannot be determined that places a sensible figure on the employer covenant, it is questionable whether the HBS could ever be an improvement on the existing UK regime. As noted in our introductory comments, the approach to providing pensions in the UK already gives high security to members and increasing this further will be detrimental to the sustainability and adequacy of pensions in the future, whilst also being detrimental to economic growth, investment and job creation.	
22.	BTPS Management Ltd	Q10.	There is a fundamental difficulty with these: that the HBS purports to provide objective valuations of matters that are subjective and not susceptible to single point values. This is particularly true in relation to sponsor support valuation. The methods may produce precise numbers but in practice the assumptions on which those numbers are based make them largely meaningless. We would argue that EIOPA needs to look at other options for taking account of sponsor support and pension protection schemes, focusing on an assessment of the maximum value of these items that could be applied to the IORP. In practice, where the pension obligations are the sponsor's rather than the IORP's itself, the sponsor support and the pension protection scheme provide the balancing item in any holistic balance sheet. Our existing approach to calculating the value of the sponsor	Noted.

			covenant is both less precise and much more bespoke. The high level and broad scope approach employs three specialised advisers assessing all levels of the sponsor's business over the next 15 years including cashflow generation, debt coverage, dividend policy, business risk and sector risks. This produces a range not a single number, but enables us to assess the confidence we can have that the liabilities will continue to be covered to the benefit of our beneficiaries. One possibility for a few large, rated corporate sponsors with listed liquid debt is to use the CDS (credit default swap) market that in effect places a traded market view of the probability of default. However, the value of this is limited to around a five year horizon and is clearly only available for a limited number of sponsors.	
23.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q10.	About security mechanism valued on a market consistent basis: The formula for the calculating the sponsor support and its simplifications are highly complex and takes in account the probability of default related to the credit ratio, which may be a questionable choice. Instead of the risk of default sponsors, may be more appropriate to consider the risk of changes in agreements with consequent reduction of the employer's contribution in case of excessive cost.	Noted.

			In order to calculate sponsor's future cash flows, there is a need to access extremely sensitive data that the sponsor might not be willing to disclose, especially in the case of multi-employer and industry-wide schemes. EIOPA does not also provide enough details on how to treat multi-employer and industry-wide schemes, cases where one sponsor supports several IORPs, or cases where the sponsor is a subsidiary of a larger (stronger) group and has its implicit support or it is a non-for-profit or public organization. The proposed model suits only cases where there is one sponsor for a single pension scheme.	
24.	Deloitte Total Reward and Benefits Limited (UK)	Q10.	No. As discussed previously, quantitative calculation of items such as sponsor support requires a number of inputs which are difficult to predict with any accuracy and in respect of which there is limited available relevant historical data on which to base such inputs. The inputs proposed in the technical specification appear arbitrary and will give rise to results which are neither market consistent nor suitable for any regulatory purpose. Within a particular Member State, the amounts recoverable from pension protection schemes will vary according to the structure of the scheme and profile of members etc. It may be difficult to accurately determine a 'coverage rate' to apply within the proposed PPS calculations.	Noted.

25.	Deutsche Post DHL	Q10.	No, we do not agree that security mechanisms should be valued on the basis of probability-weighted average discounted expected payments from the sponsor and the pension protection scheme. If a pension promise is fully backed by the sponsoring company (employer) and if employer's insolvency is fully covered by a strong PPS then this should be fully sufficient from any funding gap or capital requirement perspective. This would be a reasonable and feasible simplification, i.e. such complex valuations are not necessary at all. (please refer also to Q2.)	Noted.
26.	Dexia Asset Management	Q10.	Q10. The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? We do not believe market consistency is relevant for sponsor support to a pension scheme. This would imply to deduct sponsor support from equity, bonds, options and CDS markets, which is not a sensible approach when the majority of sponsors is not rated and not listed on securities markets. In general, the "probability-weighted average of discounted cash-flows" valuation is too simplistic and not reliable: - EBTDA projections over long time horizons are not reliable - Accounting data are not always relevant for assessing a	Noted.

			sponsor (for example multiemployer schemes or subsidiaries) - Rating are not available for most of sponsors - Many parameters are not justified, for example the percentage of sponsor free capital and future profits available to the IORP. We think sponsor support is a much more complex asset than mentioned in the QIS and many qualitative elements such as collective bargaining should be taken into account.	
27.	EEF	Q10.	The provisions must reflect the reality of multi-employer schemes (which are currently not adequately covered in the consultation). Also, in the UK many employers providing DB schemes are SMEs. The provisions are exceptionally complex and subjective and the cost of undertaking the assessment is disproportionate to the benefit.	Noted.
28.	European Association of Public Sector Pension Inst	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection	Noted.

			schemes? If not, what alternatives would you propose? EAPSPI does not agree with the principles for the valuation of sponsor support and pension protection schemes. The pursued valuation of the security level cannot be reached. Moreover, the flexible nature of the asset and the problem of realistic quantification produce a rather arbitrary balance sheet value. A quantification is not necessary since not calculating the figures would not change the state of uncertainty concerning future payments. This problem is amplified by the problem of the actual implementation of complex, laborious projection methods. The calculated values therefore contradict the notion of an objective, comparable and informative balance sheet. This leads to a pseudo-certainty in measuring and managing risks which may again create new risks. And it is essential not to limit mechanically the options of IORPs on the basis of seemingly precise figures. As EIOPA points out, a qualitative assessment and an "expert judgment" (PRO.3.22 and 3.23) of such figures is more appropriate than a quantification. EAPSPI would like to point out positive aspects of section 2.6, particularly that the HBS in general reflects the quality and the flexibility of the existing security mechanisms of IORPs (see section 2.6, on sponsor support especially HBS.6.10 to HBS.6.12 and on pension protection schemes HBS.6.70, HBS.6.71 and HBS.6.87). EIOPA recognises both assets' function of stepping in when needed with the amount necessary to meet the requirements of the IORP (= Level A technical provisions).	

			Such aspects notwithstanding, EAPSPI believes the assessment of the value of IORPs' security mechanisms in a quantitative way is fundamentally problematic. To find a reliable figure for this value hardly seems possible. As just mentioned sponsor support and pension protection schemes are volatile assets by nature, corresponding to the capital needed by the IORP and thus relating to the financial environment of the IORP. This provides for a very flexible insolvency protection without holding all needed capital available at all times. The decisive question concerning the value of the sponsor support and the pension protection scheme is whether these security mechanisms will be able to pay the moment they have to. But this depends on future developments which cannot be foreseen. Although the calculated numbers seem to be more precise than a solely qualitative assessment, it may be doubted concerning future events like expected payments of sponsors or of a pension protection scheme in a 10, 20 or 40 year time frame. So the objective of the Commission and EIOPA to precisely assess and quantify the true risk position of IORPs only seems to be reached where in fact it is not. That this pseudo-precise basis mechanically triggers capital requirements or regulatory actions is problematic. With respect to the market-consistant valuation of sponsor support, EIOPA tries to estimate the maximum value that a sponsor will be able to pay. Thus, future profits of the sponsor need to be quantified for calculating expectable payments adjusted for default probability. EIOPA suggests amongst others to use a proportion of expected net profits or of the earnings before taxes, depreciations and amortization (EBTDA). EAPSPI	

			would like to emphasise that in general, it is problematic to quantify future profits. In addition, public sector institutions as sponsors generally are non-profit institutions and reliable values of future profits therefore questionable. The EBTDA are supposed to be calculated from the average of the most recent three years data. Three years of economic downturn will provide bad expected cash-flows and the other way round and transpose to the IORPs balance sheet via the value of the sponsor support asset. A further problem in EAPSPI's opinion is that through the recourse on credit ratings as an indicator for measuring default risks of sponsors (HBS.6.15 and HBS.6.36) a new channel is created to transfer the fast changing assessment of capital markets and thus the volatility and short-term financial frictions into the balance sheets of IORPs. E.g. EIOPA suggests calculating the EBTDA starting from the most recent three years data, see above. This "risk-sensitive" consideration of the sponsor support also has pro-cyclical effects, e.g. in case of the downgrading of the sponsor and the likely response of the IORP. This import of balance sheet volatility aggravates the problems of market-consistent valuation of all other assets under the Solvency II-structure. It is highly questionable, if short-term changes in financial positions and credit risks are reliable sources for such a long-term commitment that the sponsor support constitutes. With respect to the pension protection scheme the valuation is clear. The value of the pension protection scheme in the HBS is	

			set as the coverage rate times the Level A technical provisions (HBS.6.70) so the value of a pension protection scheme with a 100%-coverage rate "is equal to the funding gap that would appear in the holistic balance sheet". The pension protection scheme is supposed to close this gap (HBS.6.71). According to EAPSPI, it does not need the HBS to reach this conclusion which is in line with EIOPA's reference to a "sufficiently strong" pension protection scheme (HBS.6.71). As a consequence, another aspect of the QIS becomes evident concerning the long-term character of IORPs: the attempt to reduce "uncertainty" to "risk". Risk can be handled by calculations whereas uncertainty cannot. This is in line with the economic debates of many decades. Due to the nature of uncertainty the values measured only seem precise: in the discussion of assessing the model error of using certain methods/simplifications when valuing the HBS and calculating the SCR (PRO.3.18), EIOPA addresses the problem of finding appropriate future values while it is conceptually unclear how to proceed "leading to a certain degree of inaccuracy and imprecision in the measurement." (PRO.2.3). EIOPA also suggests caring for a qualitative assessment in form of "reasonable assurance" (PRO.3.23) of the model error or "expert judgments" (PRO.3.23) when applying certain methods/simplifications for the calculation. So EIOPA, too, implicitly recognizes the fundamental problem of exactly quantifying the risk mitigating effects due to the nature of long-term liabilities and investment horizon of IORPs, or more generally, of the fundamental uncertainty connected to pension business.	

29.	European Federation for Retirement Provision (EFRP	Q10.	Q10. The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? The set-up and calculations as presented in this document are very complex and present a heavy administrative burden, especially for small IORPs. This can have a discouraging effect on offering pension benefits. The costs related will not be in line with the size. IORPs will have difficulties in ascribing specific values to subjective elements as the calculations for valuing security mechanisms, which is very complex due to the stochastic valuation. Given the complexity, it is recommendable to apply a simpler standard model. Along with this, the EFRP considers that the evaluation of the steering and adjustment is based on too many assumptions which make its outcome very sensible to any slight modification of any assumption. Furthermore, there is an almost complete absence of reference to, or detail on, multi-employer plans or those with employers who are from the non-profit making, charitable or quasi-public sector. This is a major omission, which would make it impossible correctly to assess the value of sponsor support for many large IORPs.	Noted.

			In addition, the valuation of the sponsor support can be derived from the wealth of the sponsor which is available to give security to the pension promise. We would argue that wealth of the sponsor is just one measure of the value of sponsor support, and that also the longevity, standing and status of the sponsor are important – elements that are much harder to measure. There are other solutions that could be pursued, such as a stress test or taking the full maximum value of Sponsor Support completely as own funds into account. In general, we would like to give in consideration alternatives to the HBS like Asset Liability Management models, scenario analysis, continuity analysis and stress tests.	
30.	Federation of the Dutch Pension Funds	Q10.	The outcomes will be dependent on many assumptions. Alternatives for the concept of the HBS could be ALM studies, continuity analysis (as used in the FTK in the Netherlands) and stress tests. Please also see our answer to Q5.	Noted.
31.	Financial Reporting Council – staff response	Q10.	We do not consider that the valuation of employer support is correct. The calculation as defined in paragraphs HBS.6.10 – HBS.6.11 of the technical specification must result in the value of	Noted.

			employer support being lower than the difference between the unreduced technical provisions and the financial assets of the IORP. This is because the value is limited to the value of the cash flows required to fill the gap between the technical provisions and the financial assets allowing for sponsor default and only getting a partial recovery of any remaining shortfall on default. This means that there is likely to be a hole in the holistic balance sheet unless the financial assets exceed the technical provisions or the technical provisions are reduced in some way. We suggest that the value of employer support should be equal to the maximum value of sponsor support defined in paragraphs HBS.6.25 – HBS.6.39. Even accepting this we have concerns that the proposed maximum value is unreliable as it is calculated using a relatively simple formula which does not take account of the specific circumstances of any given sponsor. We do not any have comments on the valuation of pension protection schemes. However, we think that there is an error in the formula for PPFFV in paragraph HBS.6.77. It does not allow for any	

			payments, CFj made by the sponsor in the years before default.	
32.	German Confederation of Skilled Crafts	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of	Noted.

			the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed.	

			Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
33.	German Institute of Pension Actuaries	Q10.	The valuation of sponsor support should be based on publicly and easily accessible data, e.g. historical data or analyst estimates. For multi-employer IORPs it should be sufficient to base the estimate on a few representative sponsors (as recommended in HBS.6.35); since the inclusion of every single sponsor would be excessive. In addition, it appears inappropriate to use for all unrated companies the same rating as for companies with rating B or less. Instead, a country-specific or even industry sector specific average should be used. The proposed market consistent valuation method of security mechanisms is overly complicated and in terms of the valuation of the deterministic and stochastic value of sponsor support it is not appropriate. For the valuation of sponsor support it is crucial that the sponsor has the financial means to close a potential gap within the HBS. For this purpose, the present and future potential support has to be considered. Therefore, the (probability weighted) maximum value of sponsor support should be taken into account within the HBS, not only a part of it. If the sponsor has the financial ability to fully guarantee a potential gap in the HBS, the value of sponsor support should reflect this and close the gap.	Noted.

			The same holds true for the valuation of pension protection schemes (PPS). If the PPS guarantees all relevant benefits, then the value of the PPS closes a potential gap within the HBS. In this case there is no need for further calculations. We believe that the loss absorbing effects from sponsor support and PPS should be dealt with together in a way that is as consistent as possible.	
34.	GESAMTMETALL - Federation of German employer	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method	Noted.

			that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer’s CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary.	

			Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
35.	Groupe Consultatif Actuariel Européen	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? We agree with the intention to calculate the security mechanisms on a market-consistent basis. However we are not convinced that the present proposals achieve this aim – for example, there is room for very different interpretations of the parameters, such as the expected future profits.	Noted.
36.	Hundred Group of Finance Directors	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the payment	Noted.

			protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of the sponsor covenant and pension protection schemes? If not, what alternatives would you propose? The proposals in the consultation document are complex in the extreme, and are likely to give only spurious answers to what are essentially subjective concepts. The sections on these elements of the calculation seem sketchy, to say the least, and would require much greater analysis and refinement to come up with a helpful methodology. A simpler approach that allows scope for a more rounded assessment of the employer's strength is likely to be more helpful. We particularly note that the calculations for valuing sponsor covenant and pension protection schemes will use spreadsheets which EIOPA has not yet released. For those employers who do not have the time, resources or expertise to build a model to perform these calculations themselves, the spreadsheets would have been a useful tool in indicating the potential size of these numbers (even though the actual impact would not be apparent, for the reasons given above). The consultation is also silent on how sponsor covenant should be calculated for multi-employer schemes.	

37.	IBM Deutschland Pensionsfonds AG	Q10.	No. We do not agree that security mechanisms should be valued on the basis of probability-weighted average discounted expected payments from the sponsor and the pension protection scheme. Firstly, this approach overlooks the fact that, in reality, the value of security mechanisms is digital, either they function or they don't. This means that a sponsor will continue to support a scheme up to the point where it is no longer financially feasible, at which point it will be closed and support will cease. Of course the deficit funding procedure, which is omitted from the technical specifications, will have an impact on this. Having to fund the entire deficit tomorrow with cash is a different proposition to having to increase the next x years of contributions by y%, even if the present value might be the same. The valuation of sponsor support as proposed by EIOPA is not robust due to the number of assumptions that need to be made. Moreover, the input data required would mostly not be readily available. For example, EBTDA is a figure that is usually only published with respect to publicly listed and consolidated entities. Benefit promises, however, are made at the legal entity level and it is only the legal entity that is liable. Therefore, a consolidated EBTDA figure is irrelevant for the purposes of this calculation. Non-publicly listed entities are not required to prepare financial statements in accordance with IFRS and, therefore, would not publish an EBTDA value. To the extent that the value of sponsor support can only be estimated for a few large corporates, the question arises	Noted.

			whether the proposed method represents discrimination of SMEs.	
38.	ICAEW - The Institute of Chartered Accountan	Q10.	See Q12 below.	Noted.
39.	Institute and Faculty of Actuaries	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? We consider that the complexity of the implied proposals coupled to the ambiguity of certain terms could compromise comparability. We are particularly concerned about the arbitrariness of some of the parameters provided because, if the legislation uses different parameters, the QIS calculations will not have provided a valid assessment of the impact. In addition, we question the value of using such complex formulae to capture some components when other material components of the holistic balance sheet employ such crude approximations and subjective values for key parameters. We consider that EIOPA should investigate all the options for taking account of sponsor support and pension protection schemes. We are not persuaded that the proposed approach is the most appropriate for a market consistent framework and we see little evidence that existing market approaches have been taken into account. In particular, we see little evidence that	Noted.

			EIOPA has drawn on the considerable expertise that has been developed in assessing sponsor covenant for pensions in the UK since the implementation of IORP 1. We have commissioned research from PwC and from Barrie and Hibbert on the treatment of sponsor support. We expect an initial report from them in early October but with regular updates in the meantime. We would be keen to share the results of that research with EIOPA as they become available. We have a specific concern that as specified in the QIS, under interest rate stress the sponsor support asset may behave like a bond. It is possible that we have misinterpreted the specification, in which case we suggest that clarification is required. We realise too that this may be a pragmatic approximation for the purpose of the QIS: if so we consider that the results may mislead as it is unrealistic to assume that the value of sponsor support will automatically increase if interest rates fall and suggest that the QIS needs also to consider scenarios in which the value of sponsor support falls when interest rates fall. It follows that we consider this is one area in which it is important that a regime centred on the holistic balance sheet should be flexible enough to allow expert judgement to override a formulaic approach to calculating the various components.	
40.	Insurance Europe	Q10.	Insurance Europe agrees with the principle of a market consistent valuation basis but we are in doubt about the feasibility of calculations. The valuation seems to be quite complex. Firstly, Insurance Europe questions how to achieve realistic assumptions about future gains of the sponsor and how this could be checked by the supervisors. It is already difficult only	Noted.

			for single-employer IORPs. For multi- employer IORP (which sometimes have more than 100 or even 1000 of sponsors) it seems to be impossible without further guidance and simplifications. Secondly, in the current approach pension protection schemes are used to back the sponsor's financial capabilities. It might be more appropriate to include all protection mechanisms where parts of the obligations of the IORP are transferred to another protection vehicle. In the spirit of the Holistic Balance Sheet such a wider interpretation should be taken (and specified on national level). At least for the purpose of this QIS, this should be detailed on national level, taking into account the economic reality of the pension protection schemes. Thirdly, setting of probability parameters of sponsor default might be a rather difficult exercise – some additional guidance on national level (taking into account the national specifics) might be helpful.	
41.	KPMG LLP (UK)	Q10.	At a practical-effect level, we are struggling to think through the pension protection scheme requirements. It (in the UK) will be a binary event for any IORP, as to whether or not on winding-up the IORP will qualify for any support from the PPF. If on winding-up, and after any possible recoveries from the sponsor, it has assets covering more than the level of PPF benefits (which are less than scheme benefits), it will not, even though it may not be able to provide 100% of scheme benefits. If it does not have sufficient assets for PPF benefits it will fall into the PPF.	Noted.
42.	Mercer Ltd	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability weighted average of (discounted)	Noted.

			expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? For many reasons, we do not accept the principle of 'market consistency' laid out in this question, including: ☐ a discounted cash flow calculation using some assumptions derived from a narrow range of market information and some more sweeping assumptions does not result in a 'market consistent' valuation; and ☐ there is not a direct market in 'sponsor support' for IORPs, or in pension protection schemes. By mandating a particular approach and in particular specific assumptions, EIOPA risks undermining the usefulness of the QIS since any change to the approach or assumptions could mean that the QIS needs to be repeated to understand the outcome. Our response to Q2 raised commented on the inadequacy of the proposals in relation to employer covenant and we repeat some of the reservations here. Overall, the sections regarding sponsor support seem to have been developed without much consideration as to the very different corporate structures that support IORPs. At the simplest level many, if not most, of these are likely to be unrated (in particular recognizing that the legal recourse available to an IORP may not be to the parent entity	

			that carries the rating) and to treat these all as though their covenant is less than investment grade is sweeping and likely to provide unreliable information. In fact, a key reason why many sponsors are unrated is because they have no financial debt nor cause to raise it, and indeed in such cases the IORP is arguably more secure than when it is competing with other creditors. At a more detailed level, the approach adopted does not seem to reflect techniques used by analysts. For example: ☐ The valuation of sponsor support seems largely cash flow based. This is a very narrow determinant of company strength and seems unlikely to reflect the criteria of market consistency established in HBS6.9; ☐ The calculation of maximum sponsor support assumes that companies are necessarily income generating, which is not the case. Corporate wealth can take different forms, and these will have to be recognized in the holistic balance sheet for EIOPA to understand the actual quantitative impact of its proposals. In practice, to remain viable, a sponsor needs to balance competing claims on its resources and a one size fits all approach does not appear to reflect reality. ☐ In many cases where financial statements are not in the public domain (for example unlimited liability partnerships), it is inconceivable that the sponsor makes information on its financial position available to an IORP. ☐ In many cases the legal recourse available to an IORP may be to a group company that is under no obligation to disclose its financial position.	

			In many jurisdictions, notably Ireland, the willingness of a sponsor to support a defined benefit IORP is at least as important as the financial capacity. The QIS offers no mechanism to incorporate qualitative views on the availability of sponsor support.	
43.	National Association of Pension Funds (NAPF)	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability- weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? The key difficulty with these proposals – particularly those on sponsor support – is that the Holistic Balance Sheet attempts to ascribe objective values to concepts that are inherently subjective. Furthermore, there is an almost complete absence of reference to, or detail on, multi-employer plans or those with employers	Noted.

			who are from the non-profit making, charitable or quasi-public sector. This is a major omission, which would make it impossible to place a robust value on sponsor support. The NAPF is also concerned that the complexity of the calculations, together with the arbitrariness of some of the central parameters, renders the results unreliable. Their worth is further undermined by the expense involved in undertaking the calculations and the limited uses to which the Holistic Balance Sheet can reasonably be put. EIOPA should consider simpler alternatives to the Holistic Balance Sheet, such as Asset Liability Management, stress tests and continuity analysis.	
44.	Pension Protection Fund, UK.	Q10.	We have some concerns as to whether all the data required to perform the calculations will be available. In the UK, the trust-based system under which IORPs operate mean that the IORP is formally separated from the sponsor and will not have automatic access to non-public sponsor data. It may therefore be difficult to obtain all the necessary information from a company to value sponsor support, in particular expected future net profits. EIOPA may want to consider what information on a company's expected future performance should always be publically available. This could then be used to develop an approach to valuing sponsor support which can be done using only publically available information.	Noted.

			More generally, the information required to value sponsor convenant is often subjective, for example actions taken in future business plans. We are concerned that, unless the information required is modified, collecting it will be impractical and will introduce inconsistencies between different entities and member states.	
45.	Pensions-Sicherungs-Verein VVaG	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? This calculation method is based on a stochastic model. Even if the input parameters and other assumptions are correct, the value of expected payments equates only as an average to the actual payments. However, because the model is based on the assumption of a single employer, there can be no averageing. Therefore, the calculated value of expected payments by the employer is purely theoretical. We question whether financial requirements should be based on such a theoretical value. The complex model conveys an impression of accuracy that exists only as an illusion.	Noted.
46.	Punter Southall	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted)	Noted.

			expected payments from the sponsor and the payment protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of the sponsor covenant and pension protection schemes? If not, what alternatives would you propose? The principles proposed for the valuation of the sponsor covenant and pension protection schemes are extremely complex and we would consider a simpler approach to be more beneficial in this area. There is also insufficient information regarding the methodology for valuing the sponsor covenant for multi-employer arrangements.	
47.	Railways Pension Trustee Company Limited (RPTCL)	Q10.	RPTCL has no comments to make on this question, although please do not treat this as our agreement with the principles put forward for the valuation of sponsor support and pension protection schemes.	Noted.
48.	RWE Pensionsfonds AG	Q10.	Provided the maximum value of sponsor support is sufficiently high, using sponsor support as an asset should guarantee a high level of security to the IORP. It remains unclear wheather this circumstance will be properly reflected if the value of sponsor support is evaluated on a market consistent basis.	Noted.
51.	Tesco Plc	Q10.	As stated in Question 2, the proposed approach to valuing	Noted.

			pension protection schemes and the sponsor covenant is too complex. Again, it is a very difficult task to devise a formula to value 27 different pension systems with varying security mechanisms. We believe EIOPA would be better placed to devise a broad framework, leaving the detailed methodology and implementation to member states, with the flexibility to cater for the different circumstances of individual IORPs and security mechanisms. Furthermore, it is impossible to give meaningful comments on EIOPA's proposals when it has specified that the techniques outlined for pension protection schemes and sponsor covenant may not be the ones that will be implemented in practice. In this regard, it would also be helpful for EIOPA to share the spreadsheets on valuing the pension protection scheme with stakeholders, as this would improve the quality of consultation responses in this area.	
52.	Towers Watson B.V.	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose?	Noted.

			Towers Watson has proposed an alternative and more pragmatic approach on the 11th of June in a letter to Commissioner Barnier.	
53.	Towers Watson GmbH, Germany	Q10.	As mentioned above, we do not really agree with this approach in principle and refer to the proposal Towers Watson put forward on 11th June 2012 to Commissioner Barnier in this context.	
54.	Towers Watson UK	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability-weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? Our concerns raised earlier remain: a number of the central parameters provided seem arbitrary (perhaps by necessity) and that this is likely to compromise the objective of market consistency. In addition, there is room for very different interpretations of the parameters, such as the expected future profits, which seems to be inconsistent with the principle of market consistency. We also reiterate the point that the complexity of the arrangements and corporate inter-relationships through which sponsor support is provided to IORPs militate against a formulaic approach to the assessment of sponsor support. We consider that EIOPA should look at other options for taking account of sponsor support and pension protection schemes,	Noted.

			focusing on an assessment of the maximum value of these items that could be applied to the IORP. Please see the proposal Towers Watson in our letter to Commissioner Barnier on 11 June 2012 put forward in this context.	
55.	Trades Union Congress (TUC)	Q10.	Our concerns about the valuation of sponsor support within the holistic balance sheet have been outlined above. Of course, if EIOPA is to proceed with the holistic balance sheet approach along the lines outlined in the consultation, it will be absolutely vital to make reference to the sponsor covenant, as it is the cornerstone of defined benefit pensions provision in the UK. However, we fear that the sponsor covenant simply cannot be valued in any consistent or meaningful way, and would strongly favour EIOPA reconsidering the holistic balance sheet approach so that arbitrary judgements about the value of the sponsor covenant are not required. The UK system to a significant extent offers discretion to trustees over how they value the security provided by sponsoring employers. While there may be cause for examining and codifying this practice, it seems clear that this issue should be dealt with in relation to scheme governance, rather than technical provisions. We would also like to add that the absence of any detailed references in the guidance to multi-employer plans or schemes with employers in the non-profit, charitable or quasi-public	Noted.

			sectors is particularly problematic. This appears to be a significant omission, which would make it impossible to correctly assess or even approximate the value of sponsor support for many large IORPs in the UK.	
56.	Universities Superannuation Scheme Limited	Q10.	The technical specifications propose that security mechanisms should be valued on a market consistent basis, i.e. by calculating the probability- weighted average of (discounted) expected payments from the sponsor and the pension protection scheme (Section 2.6). Do stakeholders agree with the principles for the valuation of sponsor support and pension protection schemes? If not, what alternatives would you propose? The key difficulty with these proposals – particularly those on sponsor support – is that the Holistic Balance Sheet attempts to ascribe objective values to concepts that are inherently subjective. Furthermore, there is an almost complete absence of reference to, or detail on, multi-employer plans or those with employers who are from the non-profit making, charitable or quasi-public sector. This is a major omission, which would make it	

			impossible correctly to assess the value of sponsor support for many vary large IORPs in the UK. We are also concerned that the sheer complexity of the calculations proposed by EIOPA (and the expense involved in making them) is not warranted by the uses to which the Holistic Balance Sheet can reasonably be put. EIOPA should consider simpler alternatives to the Holistic Balance Sheet, such as Asset Liability Management and stress tests, which are already part of funding analysis for most IORPs.	
57.	UVB Vereinigung der Unternehmensverbände in Berlin	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit.	Noted.

			We believe that it will not be possible to find one single method that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the	

			PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
58.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour;	Noted.

			– In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors. Pension Protection Schemes (PPS)should be definitely	

			incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
59.	Vereinigung der hessischen Unternehmerverbände (Vh	Q10.	First of all, this question highlights the differences in the relationship between sponsors between the different Member States. This implies that these technical specifications could be possible in one Member State, but not in the other. We have some serious concerns with the principles for the valuation of sponsor (employer) support: – The proposed method for the valuation of sponsor support is too complicated and thus too expensive. – Employing sophisticated modelling techniques that	Noted.

			forecast the sponsor's financial capacity depend on mean (Central Limit Theorem) forward assumptions behaviour; – In reality the outcome will mostly be bifurcated, i.e. the sponsor can either cover or not cover the deficit. We believe that it will not be possible to find one single method that can assess sponsor support in a both reliable and simple way for all IORPs in the EU. Therefore, if the HBS-approach will be realized, it should be left to the MS to implement an adequate method. EIOPA should confine itself to supervising that those methods are implemented. Possible methods of assessing the sponsor support could e. g. be based on the present value of the deficit and the capability of the sponsor to cover the deficit today – through the issuance of a bond. If the sponsor is a public and listed company with credit default swaps: The pension fund liability and the ability to fund the liability will manifest itself in the pricing of the sponsor/issuer's CDS. Especially for SMEs, it might be sufficient to consider the equity ratio. Furthermore, it is unclear how multiple sponsors for industry-wide pension schemes and the value of the sponsor in public sector pension schemes have to be valued. It would not be aprropriate just to add the capital required for the different sponsor companies without regarding the risk balance ensured by the community of sponsors.	

			Pension Protection Schemes (PPS)should be definitely incorporated into the holistic balance sheet as an asset (HBS 6.60). We also strongly endorse the notion of HBS 6.71: if the PPS covers 100% of the benefits and is sufficiently strong, its value should close the funding gap - without any further calculations being necessary. Alternatives for the proposed valuation and the holistic balance sheet are ALM studies (Asset Liability Management), scenario analysis and/or stress testing. This is simpler than the holistic balance sheet, because probability weighted mark-to-market valuation requires ALM scenarios including discount factors (like risk neutral valuation or deflators). These kinds of alternatives should be studied before a new IORP Directive will be proposed. Also, additional fundamental studies are needed how sponsor (employer) support and PPS, being SSL issues at their core and offering high level protection, affect supervisory structures.	
60.	Zusatzversorgungskasse des Baugewerbes AG	Q10.	No, ZVK-Bau does not think such a market consistent valuation of the sponsor support and the pension protection scheme is adequate. The model provided by EIOPA does not seem fit to assess the economic value of sponsor support for the beneficiaries. As mentioned above, within paritarian IORPs every raise of the pension funds contribution is part of this above mentioned equilibrium: the result of the almost yearly happening bargaining process is a package that consists of wage raises, pension funds contribution rates, working time, fringe	Noted.

			benefits etc. So every raise of pension funds' contribution is financed not only by the sponsoring enterprises but economically by the employees too because the latter refrain from getting possible wage raises or fringe benefit improvements or decide to raise productivity (by longer working hours for example). Sponsor support cannot be measured only against financial resources of a sponsoring company but has to acknowledge that – especially in industry-wide IORPs - employers and employees of the whole industry support the scheme. Given the suggestions of the consultation concerning a 3 % wage increase per year (HBS.8.24) we assume a contribution raise potential up to 3 % of gross wage increase a year in case of pension fund distress. This works for the whole, longer than one year lasting recovery period. We would also point out that data on the EBTDA and the future cash flows of 40.000 sponsoring undertakings – 92 % of them with less than 20 employees - which our IORP serves are impossible to deliver.	
61.	OPSG	Q11.	In general, a simplification would be better than the complicated mathematical calculations (for the first QIS). The OPSG wants to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor. (A lot of this stochastic work depends on stable correlations and high coefficients of determination (R2s) –	Noted.

			which are not present in the real world). Another point, which needs clarification, is where do the IORP claims rank with other creditors in the case of a sponsor's default? Is this ranking consistent across Member States? Also see also Q3. The OPSG does not advocate short recovery plans, however the OPSG believes the acid test is whether a sponsor if called upon 'today' can finance an IORP deficit. With a positive answer a recovery plan (and its duration) is the product of negotiation between the IORP and the sponsor. If the answer is negative, then this becomes a supervisory issue and a point where the PPS may have to support the scheme (for example in the UK model).	
62.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q11.	No. We do not agree with the proposed methodology and altering the parameters would not make a difference to this.	Noted.
63.	AEIP – The European Association of Paritarian Inst	Q11.	We refer to our answer to Q10.	Noted.
66.	Aon Hewitt	Q11.	A large number of sponsors will not have credit ratings. We do not agree that unrated sponsors should have a default rating in line with that of a B or CCC rated company. There is some logic in this for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it wants. This logic does not apply in relation to IORPs who cannot choose their sponsor.	Noted.

			Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities. We note that the probability of default in tables in HBS 6.15 and HBS.7.41 are inconsistent.	
67.	Association of Consulting Actuaries UK	Q11.	The percentages used in the valuation of sponsor support for recovery rate appear arbitrary and without any basis in logic or reality. We would also note that fixing default probabilities for all future scenarios (while making the calculation simpler for the purpose of the QIS) does not fit with a suggested stochastic valuation approach, and changes in economic scenarios can lead to rapid changes in a sponsor's credit rating and associated default probability. Also some sponsors may be rated by several agencies – if these ratings differ on the valuation date, which	Noted.

			will be used?	
68.	Balfour Beatty plc	Q11.	Do stakeholders have suggestions for the parameters-_ such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? We understand that the ECON has recently advised in its statement of 19 June 2012 that "no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade" – so it is evident that EIOPA will have to amend this proposal. From a purely technical view, there may be different ratings given to a sponsor by different rating agencies. In particular, there may be some rating agencies whose ratings of the sponsor are out-dated or non-existent. Furthermore, credit ratings are not necessarily a reliable guide to the probability of default on a sponsor's pension obligations. The issue discussed in response to question 2 above, regarding treatment of sponsors within a group of associated undertakings and with links to cross-border and non-EEA entities, also applies here. It seems reasonable when assessing the strength of sponsor support to consider the position in the event that that sponsor becomes insolvent. However, it is evident that a lot	Noted.

			more thought is needed as to how to go about this – on the basis that use of credit ratings is inappropriate. Looking at the issue of groups of undertakings and cross-jurisdictional issues, it is evident that to take this into account in a formulaic but fair way will be complex and hence both time-consuming and expensive . For example, past experience suggests that the value of sponsor support can alter significantly over relatively short timescales and due to factors that may not be quantifiable until after the event .	
69.	Barnett Waddingham LLP	Q11.	We believe these parameters will very much depend on an individual IORP's circumstances and that they will vary by member state, by industry or by legal status of sponsor. We consider that the valuation of sponsor support, despite its importance in the holistic balance sheet, is given in insufficient detail when compared with the valuation of technical provisions. The parameters given are arbitrary and will present a misleading picture.	Noted.
70.	BASF SE	Q11.	Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? As already mentioned, we believe that the HBS and the market consistent valuation of the security mechanisms is not the right approach for "not for profit" IORPs. Additionally, the valuation of the sponsor support and the	Noted.

			pension protection scheme is very complex and will overburden most IORPs.	
71.	Bayer AG	Q11.	Since the whole general approach being based on the Solvency II framework is not suitable for determining capital requirements of IORPs, we naturally have no suggestions regarding single parameters.	Noted.
72.	Bayerischer Industrieverband Steine und Erden e.V.	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
73.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
74.	BdS – Bundesverband der Systemgastronomie e.V.	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation	Noted.

			will vary considerably from sponsor to sponsor.	
75.	Belgian Association of Pension Institutions (BVPI-	Q11.	This part feels like a black box approach on default risk, recovery rate, estimate for future wealth, This will generate values with no useful realistic value? There is too much reliance on assumptions and rating agencies. Ratings imply a risk, namely their accuracy, both positive and negative (type I and II risks both are important here). Why the worst case scenario for those sponsors who are not rated? How to apply this concept in the context of: ☐ Industry-wide plans? ☐ Multi-employer plans? ☐ Local subsidiaries of multinational groups? ☐ Companies who transfer the profit to the mother company? ☐ Non profit organisations? ☐ Public authorities? ☐ Semi-Independant public agencies? (How to determine the rating? The company wealth? Etc…)	Noted, and to be further developed at a later stage. IORPs should adapt the principles as set out.

			We suggest to introduce a further simplification for the sponsor support: acting together with the pension protection scheme as the closing element of the HBS without any numerical valuation.	
76.	Bosch Pensionsfonds AG	Q11.	See Q2 and Q10.	Noted.
77.	Bosch-Group	Q11.	See Q2 and Q10.	Noted.
78.	BT Group plc	Q11.	Do stakeholders have suggestions for the parameters such as the probability of default and the recovery rate in the event of default used in the valuation of sponsor support and pension protection schemes (Section 2.6)? Again, it is impossible to comment fully without details on how the figures are used. These parameters appear highly arbitrary and a one-size-fits-all approach will not lead to reliable results in practice.	Noted.
79.	BTPS Management Ltd	Q11.	We do not believe that credit ratings should be used in these calculations as they are limited in use to bond payment default risk. Not only will they not be available for significant numbers of sponsors, credit ratings are not necessarily a reliable guide to the probability of default on a sponsor's pension obligations as	Noted.

			pensions are an employment-related agreement and so subject to various protections – which differ across different member states. In addition, the financial crisis has brought credit ratings into question and the regulatory community is actively working to ensure that credit downgrades do not have systemic implications by seeking to remove any hard-wiring of credit ratings into any regulatory rules. This perspective has been reflected by ECON in its recent statement (June 19th) that "no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade". We believe therefore that there should not be any steps to install credit ratings at the heart of these proposals. We do not believe that using a 50% assumption for the recovery rate is "market consistent".	
80.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q11.	About parameters like probability of default and recovery rate in event of default used in the valuation of SS and PPS: See answer to Q10.	Noted.
81.	Deloitte Total Reward and Benefits Limited (UK)	Q11.	The parameters currently proposed appear arbitrary. A realistic input would vary significantly from one IORP to another and would be impossible to assess with any accuracy. In light of this, we suggest that EIOPA re-consider the holistic balance sheet approach. If EIOPA does proceed with this	

			approach, the timescale for review should be extended to allow all stakeholders (including EIOPA) to assess alternative options to derive these parameters.	
82.	Deutsche Post DHL	Q11.	No, please refer to Q2. and Q10.	Noted.
83.	Dexia Asset Management	Q11.	Q11. Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? Ratings have a dramatic impact and overreliance on rating agencies – especially for social protection – should be thoroughly assessed. In any case, rating agencies do not have enough resources to estimate the health of every IORP sponsor in Europe. We also think the choice of the parameters should at least be further explained (why 50% recovery rate?).	Noted.
84.	European Association of Public Sector Pension Inst	Q11.	Do stakeholders have suggestions for the parameters – such as the probability of default and the recovery rate in the event of default – used in the valuation of sponsor support and pension protection schemes (Section 2.6)? EAPSPI finds that the valuation of sponsor support is ill-designed particularly for multi-employer IORPs The exposure of multi-employer IORPs to single default risks (i.e. all sponsors	Noted.

			defaulting at the same time) is basically non existant. In addition, a thorough examination of possible default risks is very time-consuming and costly for multi-employer IORPs. The valuation of the default risks given in the QIS for each supporting employer is disproportionate. The approach in section 6.35 to make calculations only for a sufficient number of (larger) employers is neither helpful nor necessary regarding multi-employer IORPs. EAPSPI would like to stress that many public sector IORPs are multi-employer IORPs involving a large number of sponsors. For example, the supplementary pension scheme for public employees in Bavaria covers 5,500 employers and the supplementary pension scheme of the German Catholic Church 8,700 employers. The total number of pure public sector employers in Germany sums up to around 26,000 employers covering a huge variety of employers. Here, too, the question arises how to evaluate the financial solidity and the probability of default of a public employer in general. These aspects must be accounted for in case of multi-employer IORPs and public sector IORPs.	
85.	European Federation for Retirement Provision (EFRP	Q11.	Q11. Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? As previously mentioned in the answers to questions 6 and 10,	Noted.

			the valuation of the sponsor support and the pension protection schemes will be extremely difficult and subjective. Many sponsors do not have a rating, multi-employer and not-for-profit employers will face difficulties in the valuation of sponsor support. This issue and the different parameters are not sufficiently well developed and more guidance is required. The EFRP is concerned about the reliance on credit ratings in the computations. There was a clear commitment by representatives at the G20 summit to reduce the reliance on credit ratings in financial regulation. This point has been taken up by the OECD in redrafting the Core Principles for Occupational Pension Regulation and the European Commission in its draft revision of the Credit Ratings Regulation. In October 2010, the Financial Stability Board also argued that the reliance on credit rating agencies should be reduced. They proposed that standard setters and authorities should assess references to credit rating agency ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness. The ECON Committee of the European Parliament also emphasized this point recently: "no EU law will be permitted to refer to credit rating for regulatory purposes". It should be noted that the vast majority of employers who sponsor occupational pensions are not rated.	
86.	Federation of the Dutch Pension Funds	Q11.	As already mentioned in the answer to Q6, the valuation of the sponsor support and of the pension protection schemes will be extremely difficult. It is unclear which consequences there will be for a company.	Noted.

			These should be investigated in more detail. It is not clear how multiple sponsors for industry-wide pension schemes and how the value of the sponsor in public sector pension schemes have to be calculated. Please also see the answer to Q6. Furthermore, the link to Credit Rating Agencies is remarkable. In October 2010, the Financial Stability Board also argued that the reliance on credit rating agencies should be reduced. They proposed that standard setters and authorities should assess references to credit rating agency ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness. The ECON Committee of the European Parliament also emphasized this point recently: "no EU law will be permitted to refer to credit rating for regulatory purposes". It should be noted that the vast majority of employers who sponsor occupational pensions are not rated.	
87.	Financial Reporting Council – staff response	Q11.	We note that the probabilities in the table in HBS.6.15 will lead to relatively low SCRs for companies with credit ratings of BBB or above. There are then significant increases in the SCR for companies with ratings of BB and then B or lower. We would expect the level of recovery on default will vary significantly depending on matters including the rating at the time of default and the nature of the business. From our experience, the recovery rate of 50% appears high.	Noted.

88.	German Institute of Pension Actuaries	Q11.	For German IORP's the sponsor support in the case of a payment default isn't independent of the pension protection scheme (PPS). If the PPS guarantees effectively all relevant benefits, then the value of the PPS closes a potential gap within the HBS. In this case there is no need for further calculations. Only if the member's benefits are not covered by the PPS there is a further calculation necessary. In Germany, the PPS covers effectively all benefits. Furthermore it isn't possible to get the desired information for any single employer without significant expense. Above all, most German employers have no rating at all and are certainly therefore not necessarily non-investment grade. It is therefore inappropriate to simply use a default probability of 4.175% for all such companies. Therefore, we believe that it isn't necessary to calculate the (maximum) sponsor support depending on single credit risk or with probability of default. If the calculation of the sponsor support is to be followed regardless, we therefore believe that every German IORP should value the sponsor support using the credit risk and default probability of the German economy. Also, it is very unusual for a company to always hold the same rating at any time. Thus, for example, Moody's, S&P, Fitch and DBRS often rate the same company differently. We propose that EIOPA deals with this by allowing the highest applicable rating of one of the generally recognised rating agencies to apply. Under German labour law the PSV covers effectively all benefits,	Noted.

			thus closing the funding gap. Further, the PSV doesn't pay any future cash-flows to the IORP but directly to the beneficiary. In the event of an employer's default the German IORP reduces the level of benefits to a guarantee level and the PSV will pick up the difference. We believe that the loss absorbing effects from sponsor support and PPS should be dealt with together in a way that is as consistent as possible. In practice, recovery is of little importance, complex and very special. It isn't possible to get the information for any single employer without an expensive effort and in good time. If the calculation is to be followed regardless, we therefore believe that every German IORP should value the sponsor support using a recovery rate of the German economy.	
89.	GESAMTMETALL - Federation of German employer	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
90.	Groupe Consultatif Actuariel Européen	Q11.	Do stakeholders have suggestions for the parameters-_ such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)?	Noted.

			No we do not at this stage have suggestions for parameter values. It would help if EIOPA were to explain the rationale behind the particular parameters they have chosen. We believe more research is needed not just on the methods for sponsor valuation, but also on the parameters associated with each. If the purpose of the initial QIS is to inform the high level strategic decisions on the structure of the IORPII framework then we would support a simplified valuation of the sponsor covenant as a first stage (with a corresponding reduction of detail and complication on the liability side for proportionality), followed by subsequent QISs to improve the level of sophistication as appropriate.	
91.	Hundred Group of Finance Directors	Q11.	Do stakeholders have suggestions for the parameters – such as the probability of default and the recovery rate in the event of default – used in the valuation of sponsor support and pension protection schemes (Section 2.6)? The parameters suggested seem very arbitrary and a more scheme-specific approach would be preferable.	Noted.
92.	IBM Deutschland Pensionsfonds AG	Q11.	No. We do not agree with the proposed methodology and altering the parameters would not make a difference to this. As stated above, the valuation of sponsor support as proposed by EIOPA is not robust due to the number of assumptions that need to be made. Moreover, the input data required would	Noted.

			mostly not be readily available. For example, EBTDA is a figure that is usually only published with respect to publicly listed and consolidated entities. Benefit promises, however, are made at the legal entity level and it is only the legal entity that is liable. Therefore, a consolidated EBTDA figure is irrelevant for the purposes of this calculation. Non-publicly listed entities are not required to prepare financial statements in accordance with IFRS and, therefore, would not publish an EBTDA value. In addition, some sponsors may have more than one IORP. How would the value of sponsor support be allocated? It is not justifiable to use commercial ratings to estimate the default risk of sponsors, nor is it reasonable to assign unrated employers the highest probability of default for the following reasons: - Some IORPs service many (unrated) small employers in a particular industry. The lack of reliance on a single employer arguably reduces exposure to default risk rather than increasing it. - Many IORPs are sponsored by public entities which are not rated and whose probability of default is very small. - Some IORPs are sponsored by un-rated subsidiaries of foreign (rated) multinationals. The rating of the parent, however, is irrelevant as the parent is not liable for pensions in	

			a local jurisdiction. - Assigning unrated employers the highest probability of default would discriminate against SMEs by making their occupational retirement provision more costly. Moreover, both the Commission and the European Parliament are committed to reducing the reliance on credit ratings in European legislation.	
93.	ICAEW - The Institute of Chartered Accountan	Q11.	See Q12 below.	Noted.
94.	Institute and Faculty of Actuaries	Q11.	Do stakeholders have suggestions for the parameters- such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? No, these are not actuarial issues.	Noted.
95.	Insurance Europe	Q11.	Valuation of components beyond the sphere of the IORP itself is a big challenge for IORPs. Data and parameters from sponsors and pension protection schemes might not be publicly available and the IORP should not have the responsibility for completing these missing figures. Therefore EIOPA has to fill these gaps or to delegate the discussion about the completion of these figures to the national supervisors. The QIS' results should give further insight where IORPs have lack of information and will need more guidance and specifications on methods and parameters. The outcome of the QIS should be carefully taken into account by EIOPA regarding its final advice.	Noted.

			Furthermore, one QIS might not be sufficient to find the right answers. Therefore additional testing might be required.	
96.	KPMG LLP (UK)	Q11.	As we cannot see how this analysis can offer any meaningful results at an aggregated national level, the parameters used are largely irrelevant. In terms of moving from a QIS to an IORP directive, this is another measure that is currently too crude and would require greater complexity and supervision costs to work effectively.	Noted.
97.	Mercer Ltd	Q11.	Do stakeholders have suggestions for the parameters – such as the probability of default and the recovery rate in the event of default – used in the valuation of sponsor support and pension protection schemes (Section 2.6)? Our understanding is that probabilities of default and the likely recovery of a company that has entered insolvency, even amongst similarly rated companies, differs between member states, for example, because of local insolvency rules and different degrees of protectionism. Consequently, the proposed assumptions are unlikely to be appropriate for all IORPs. For example, in Ireland the pension Trustee has no legal claim on the resources of the sponsor on default. As set out in Q2, we also believe that the proposal to apply a punitive probability of default to unrated sponsors is faulty and would give rise to misleading results. Companies can be unrated for many reasons, and sometimes it could be because of a position of relative strength rather than weakness. We reiterate also the distinction between the capacity of a sponsor	Noted.

			to pay and the willingness of a sponsor to pay and suggest that the use of prescriptive discount rates misses this important point.	
98.	National Association of Pension Funds (NAPF)	Q11.	Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? As noted in the previous answer, further guidance is required on how these factors would be valued in the case of multi-employer schemes and not-for-profit organisations. There is an assumption at HBS.6.17 that a 50% recovery rate will be secured from defaulting employers. Whilst this might be as good as any arbitrary number to start with, there would need to be a further assessment where there is the prospect of government rescue for a failing employer (eg UK universities and other in-part publicly funded or statutory bodies that have IORPs). EIOPA should consider whether a scheme-specific approach wiould be more appropriate. In HBS.6.3. it is stated that the "value … of sponsor support can	Noted.

			be derived from the wealth of the sponsor which is available to give security to the pension promise". We would argue that wealth of the sponsor is just one measure of the value of sponsor support, and that also the longevity, standing and status of the sponsor is important – elements that are much harder to measure. UK universities are a case in point – they would generally be considered to be 'wealthy' and the sponsor support which they are able to provide is considerable, however they do not have vast cashflows (they do not have a profit-making objective). Their support is in the form of being able to provide virtually guaranteed long-standing support to the scheme over many, many decades (some have been in existence for hundreds of years), which allows a different pace of funding to that found in some other schemes. This form of "wealth" is difficult to measure – and the technical specification of the the QIS would appear not to cater for this type of arrangement. We also note that the European Parliament's ECON Committee has recently advised in its statement of 19 June 2012 that "no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade" – EIOPA's advice seems at odds with this.	
99.	Pensions-Sicherungs-Verein VVaG	Q11.	Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)?	Noted.

			In the case that PPS covers 100% of the obligation, the value of sponsor support and the value of the PPS can be considered in combination. According to HBS 6.71, the result is that the value of the protection instruments equates to the amount of the coverage gap. In this case, the recovery rate is of no importance. In cases in which PPS guarantees less than 100% of the obligation, we consider the use of ratings to assess the probability of default on the part of the employer problematical. Ratings do not exist for all companies. We should point out that there are also employers with a default probability of zero, including, for example, sponsors of the state social security system. These should also be included in the table.	
100.	Punter Southall	Q11.	Do stakeholders have suggestions for the parameters – such as the probability of default and the recovery rate in the event of default – used in the valuation of sponsor support and pension protection schemes (Section 2.6)? The parameters suggested – such as the probability of default and the recovery rate in the event of default - seem somewhat arbitrary. The probabilities are likely to be very dependent on the specific circumstances of the employer, and it is not clear that it is appropriate to set a standardized rate.	Noted.

101.	Railways Pension Trustee Company Limited (RPTCL)	Q11.	We do not consider that the use of credit ratings are necessarily a reliable guide to the probability of default of a sponsor. In our case, RPTCL employs expert covenant assessors and uses an extensive approach to covenant assessment which enables us to have a far more sponsor-specific assessment of potential sponsor default than a percentage based on a credit rating, which may itself be out of date. Our approach also involves updating the covenant assessment of the sponsors of our IORPs at least annually. RPTCL therefore considers the use of specific covenant assessments for the setting of probability of default as a better approach than use of credit ratings. However, we accept that use of credit ratings may be the only viable option for some IORPs.	Noted.
102.	RWE Pensionsfonds AG	Q11.	If the economical capacity of the sponsor is deemed to be a necessary parameter, this should not be derived from any credit ratings of the sponsor.	Noted.
105.	Tesco Plc	Q11.	The parameters should be scheme and sponsor-specific. We have concerns with using 'credit rating' to determine the risk of default as there are many factors that need to be taken into account in addition to credit rating. Furthermore, not all companies will have a credit rating, and so a more inclusive factor should be considered.	Noted.

			It is also unclear in the guidance who the 'sponsor' is, i.e. where there are multiple employers or complicated Group structures.	
106.	Towers Watson B.V.	Q11.	Do stakeholders have suggestions for the parameters-_ such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? Credit ratings may not always be reliable. Also, different rating agencies may give different ratings to the same sponsor. For industry wide schemes, different ratings may apply, not only for the same sponsor but among different sponsors. A lot more thought is needed as to how to go about this – certainly on the basis that use of credit ratings is inappropriate.	Noted.
107.	Towers Watson GmbH, Germany	Q11.	No. We believe that the above points are grounds for considering alternative approaches, and we draw EIOPA's attention once again to Towers Watson's letter of 11th June 2012 to Commissioner Barnier.	Noted.

108.	Towers Watson UK	Q11.	Do stakeholders have suggestions for the parameters-_ such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? We understand that the ECON has recently advised in its statement of 19 June 2012 that "no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade" – so it seems likely that EIOPA will need to amend this aspect of its advice. From a purely technical view, there may be different ratings given to a sponsor by different rating agencies. In particular, there may be some rating agencies whose ratings of the sponsor are out-dated or non-existent. Furthermore, credit ratings are not necessarily a reliable guide to the probability of default on a sponsor's pension obligations. The issue discussed in response to question 2 above, regarding treatment of sponsors within a group of associated undertakings and with links to cross-border and non-EEA entities, also applies here. It seems reasonable when assessing the strength of sponsor support to consider the position in the event that that sponsor becomes insolvent. However, it is evident that a lot more thought is needed as to how to go about this – on the basis that use of credit ratings is inappropriate. Looking at the issue of groups of undertakings and cross-jurisdictional issues, it is evident that to take this into account in a formulaic but fair way will be complex and hence both time-consuming and expensive . For example, past experience suggests that the value of sponsor support can alter significantly over relatively	Noted.

			short timescales and due to factors that may not be quantifiable until after the event. We believe that the above points are grounds for considering alternative approaches, and we draw EIOPA's attention once again to Towers Watson's letter of 11th June 2012 to Commissioner Barnier.	
109.	Universities Superannuation Scheme Limited	Q11.	Do stakeholders have suggestions for the parameters - such as the probability of default and the recovery rate in the event of default - used in the valuation of sponsor support and pension protection schemes (Section 2.6)? As noted in the previous answer, further guidance is required on how these facts would be valued in the case of multi-employer schemes and not-for-profit organisations. These comprise a substantial proportion of UK pension schemes and certainly these types of schemes are amongst the largest. There is an assumption at HBS.6.17 that a 50% recovery rate will be secured from defaulting employers. Whilst it might be necessary to 'pick a number', there would need to be a further assessment where there is the prospect – albeit ultimately unknown – of government rescue for a failing employer (eg in USS's case of UK universities, but would equally apply to other employers that are part publicly funded or statutory bodies that	Noted.

			have IORPs). In HBS.6.3. it is stated that the "value … of sponsor support can be derived from the wealth of the sponsor which is available to give security to the pension promise". We would argue that wealth of the sponsor is just one measure of the value of sponsor support, and that also the longevity, standing and status of the sponsor is important – elements that are much harder to measure. UK universities are a case in point – they would generally be considered to be 'wealthy' and the sponsor support which they are able to provide is considerable, however they do not have vast cashflows (they do not have a profit-making objective). Their support is in the form of being able to provide virtually guaranteed long-standing support to the scheme over many, many decades (some have been in existence for hundreds of years), which allows a different pace of funding to that found in some other schemes. This form of "wealth" is not measurable – or is certainly difficult to measure – and the proposed QIS would not enable it to be measured in the HBS. In HBS.6.24 it is stated that, if IORPs believe that the standard methodology leads to "misestimating", then they can carry out their own calculations. If the intention of these proposals – in general – is to harmonise the funding of schemes across the EU then this provision seems unusual, and it will also lead to confusion amongst IORPs in not being able to be certain as to the implications, and there is a likelihood of inconsistencies arising from the QIS responses.	

110.	UVB Vereinigung der Unternehmensverbände in Berlin	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
111.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
112.	Vereinigung der hessischen Unternehmerverbände (Vh	Q11.	In general, a simplification would be better than the complicated mathematic calculations (for the first QIS). We want to highlight that it would be difficult to provide any meaningful parameters on the probability of default and recovery rates, using financial models with extensive time horizons. Little comfort can be achieved through an average expectation, because the situation will vary considerably from sponsor to sponsor.	Noted.
113.	Zusatzversorgungskasse des Baugewerbes AG	Q11.	Considering the built-in security of an industry-wide IORP where all employers share the responsibility to provide an industry-	Noted.

			wide calculated pension based on collective equivalence – meaning that there are no individual accounts and the industry-wide contribution is set in a way to cover the industry-wide benefits – we consider PD equals zero. Therefore the recovery rate is not of interest any more.	
114.	OPSG	Q12.	No, the OPSG does not agree with the methodology that sets out the maximum value of sponsor support (see also Q3). As already mentioned in question 11, the methodology's assumptions for the prediction of cash flows, default probabilities and recovery rates, are at best educated guesses. Another issue will be to decide how many years of EBTDA to include; the more years the better the funding position of the IORP. Conversely, using EBTDA as a proxy for free cash could either put the sponsor into insolvency (as it leaves no cash to run a viable business) or create a false image of security. A possible simpler alternative could be to take the last 5 or 10 years average ROE (Return on Equity) (a 'very rough' proxy for distributive cash) multiplied by the current equity to give today's capacity, then add a growth factor typical of the economy (2.5%) and discounted by the implied default rate (see page 34 credit ratings) sum the values over time to the value required to fill the deficit. If the time required exceeds 'x' number of years e.g. 10, then the quality of the sponsor's covenant is questionable and requires supervisory scrutiny.	Noted.
115.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q12.	No. We do not agree with the proposed methodology and altering the parameters would not make a difference to this.	Noted.

			As stated above, the valuation of sponsor support as proposed by EIOPA is not robust due to the number of assumptions that need to be made. Moreover, the input data required would mostly not be readily available. For example, EBTDA is a figure that is usually only published with respect to publicly listed and consolidated entities. Benefit promises, however, are made at the legal entity level and it is only the legal entity that is liable. Therefore, a consolidated EBTDA figure is irrelevant for the purposes of this calculation. Non-publicly listed entities are not required to prepare financial statements in accordance with IFRS and, therefore, would not publish an EBTDA value. It is not justifiable to use commercial ratings to estimate the default risk of sponsors especially in light of the fact that both the Commission and the European Parliament are committed to reducing the reliance on credit ratings in European legislation.	
116.	AEIP – The European Association of Paritarian Inst	Q12.	We refer to our answer to Q10.	Noted.
119.	Aon Hewitt	Q12.	The employer covenant relies on a calculation of the maximum value of sponsor support calculated without default risk. This in turn relies on discounting future net profits which are difficult to estimate (most corporate forecast of future profits are likely to be wrong/optimistic and short term) or calculating EBTDA which is a non-standard accounting cash flow number and subject to interpretation. This raises several questions. For example,	Noted, will be further developed at a later stage.

			assuming that an EBITDA estimate was available, to convert this to EBTDA (no "I"), do you deduct cash interest paid or stated P&L interest? Is EBITDA available? Is the interest deduction net or gross and what "other" charges may be grouped together in the interest number? Instead, we suggest that sponsor support required to cover the HBS and SCR shortfall is calculated as a balancing item. The IORP manager should then be expected to consider whether it is reasonable to rely on the sponsor to the extent required. This is consistent with the current UK approach. It avoids the need to place a numerical value on the maximum or actual sponsor covenant. This means that EIOPA avoids having to set out and justify what look like essentially arbitrary formulae. It means there is flexibility to deal with IORPs with several sponsors and with companies (or groups) which sponsor several IORPs. It also avoids problems with much of the required data being difficult to derive (at least in an objective way) such as the default risk relating to unquoted or not for profit entities. Although we prefer a fundamentally different approach as described above, we comment on your detailed proposals below. We do not agree that unrated sponsors should have a default rating in line with that of a B or CCC rated company. There is some logic in this in the context of Solvency II for a financial institution investing in a broad range of bonds almost all of which are rated, and which can sell the non-rated bonds if it	

			wants. This logic does not apply in relation to IORPs who cannot choose their sponsor. Credit rating providers also calculate market-implied credit ratings for certain listed entities. We recommend that IORPs are allowed to use a market-implied credit rating when a credit rating is not available. Unrated employers will include non-profit institutions such as charities, universities, research organisations, hospitals, public service providers, trade unions, churches and partnerships. By treating these as unrated employers with a default probability of 4.175%, there is a risk that IORPs sponsored by these institutions will have significant balance sheet deficits and, depending on any future policy framework, may have to reduce the amount of money spent on their non-profit activities (eg charitable giving, philanthropic activity). EIOPA should consider whether it is appropriate to treat non-profit institutions in this way. It is not clear that a sensible value can be obtained by adding a balance sheet item to future cash flows. As an aside, it will be difficult to forecast future net profits or EBTDA (gross profits) as most companies do not disclose this, and EBTDA is not a widely used accounting or finance term, so this may need to be estimated which will increase the costs of doing the exercise.	

			It is also not clear what is meant by net profit . We assume it is post-tax net profit or, in some cases, "other comprehensive income". Or do you mean Operating Earnings, or Amounts transferred to Retained Earnings (ie taking into account dividends paid) or Other Comprehensive Income. EIOPA should provide clarification on the net profit figure that should be used and why it believes this is the most appropriate definition. Also, since contributions are paid from cash flow, a better or alternative metric should be company cash flow (if a company is not generating cash it will generally not be able to pay pension contributions, unless if borrows or sells assets). Alternative measures could then be cash generated from operating activities, net cash inflow from operating activities, net increase in cash during the year, and such measures are normally found in published cash flow statements. Other measures, such as Free Cash Flow, could also be considered (but, again, this is a non-standard item and therefore needs careful explanation of how this should be derived would be required). For non-profit entitles, the concept of "earnings" does not exist. Alternative definitions will need to be used. For charities, some assets may be restricted assets so not available for pension funding purposes. Given the large number of non-profit organisations in the EEA, EIOPA should provide guidance on how non-profit entities should be treated.	

			It is not clear why EBTDA has been used as a definition, For large financial institutions, a large part of their earnings is interest income, so EBTDA can actually be a very large negative number. We are not sure whether this is EIOPA's intention, as this could penalise some of Europe's largest financial institutions. Likewise, some companies have significant borrowings, with certain creditors ranking ahead of the IORP (eg secured bank lenders). For these companies, EBTDA may overstate the potential amount that may be available to the pension fund. It is not clear why EIOPA have not specified EBITDA, which is at least more widely recognised, as an appropriate earnings measure. For the item "current recovery plan contributions" should these be adjusted to take account of what level of contributions might be payable based on a new valuation, under existing rules and methods, as at 30 December 2011? In some countries, eg the UK, existing recovery plan contributions may have been based on an actuarial valuation that is up to three years old (or in the process of being updated), so it would be inappropriate to compare deficit contributions under a new regime as at this date, without knowing what they would look like under the current regime as at the same date It is not clear why employer support is only assumed to continue for the average duration of the cash flows rather than until all	

			cash flows are paid. Some of the other inputs also appear arbitrary. For example, why is 50% of expected future net profits used rather than 10% or 25%? Why 25% of EBTDA? This paper also gives the impression that EIOPA will allow deficits to be met over the average duration of the cash flows. We understand no decision has been made on this yet, and this will be a matter for the Commission, so it is important that the Commission has information which can help it assess the impact of different recovery plan lengths. Given the materiality of this item, we suggest IORPs also do calculations where "d" is doubled (ie it equals two times the value of the average duration), and we have allowed for this in our proposed approach set out in I.5.4 and PRO.4.17. It is also not clear why 50% has been taken for the proportion of shareholder funds available for the IORP. In many countries, the level of support is not at the employer's or owner's discretion. We note that it many cases the simplified methodology will lead to inappropriate values (eg for private and non-profit companies, complex group structures, entities where future earnings will be different from the past eg the past includes exceptional or negative items, sponsors where the nature or size of business has changed). EIOPA should provide guidance on when the simplified methodology may not be suitable. For the purpose of the QIS, it is likely to be difficult to use anything	

			different from the simplified methodology given the time available, so EIOPA should also comment on whether there is a risk that the output from the QIS could misstate sponsor support as a whole if most IORPs decide to use the simplified methodology for this exercise. For listed entities, it is not clear why the maximum amount of sponsor support should be different from the market capitalisation of the entity. It would be helpful if EIOPA could explain its thinking in this area, especially as this would then be a market-related value which would then be objective and broadly consistent with the methods used to value the assets and liabilities. Some of our clients have expressed concerns that the maximum amount of sponsor support could be commercially sensitive, especially it turns out to be different (either higher of lower) than actual market capitalisation. Some sponsors are concerned as to how this information will be used, and that it could then become available for third parties. This in turn could impact the price that investors may be willing to pay for shares in these sponsors, and reduce the attractiveness of the sponsor to external investors. This in turn could weaken the strength of the sponsor, and reduce the level of sponsor support for the IORP. EIOPA should provide some safeguards and reassurance as to how the information on the maximum sponsor support will be used and kept confidential. Without appropriate safeguards, this may mean that some IORPs will be reluctant to take part in the QIS (some of our large clients have already expressed this	

			concern to us) Overall we think the section for determining sponsor support needs a significant amount for work in order for it to be meaningful and interpreted appropriately and consistently for all different types of sponsors across all jurisdictions.	
120.	Association of British Insurers	Q12.	The ABI agrees with the principle to value a maximum value of sponsor support however we cannot see how a one-size-fits-all approach to value sponsor support will work. The ABI questions how to achieve realistic assumptions about future profits of the sponsor and how this could be checked by the supervisors. It is already difficult for single-employer IORPs. For multi- employer IORPs it seems to be impossible without further guidance and simplifications. . It also does not seem to allow for not for profit organisations. A formula based on EBTDA will give different results for similar sponsors with different capital structures. The possibility of a more flexible approach, where IORPs offer an alternative valuation, could end up being unworkable if it places a burden on the regulator to sign off these valuations.	Noted.

121.	Association of Consulting Actuaries UK	Q12.	No, any parameters are likely to be inappropriate (as there are some things in life which are not capable of accurate estimation, being based on individuals' actions) and the methodology is thus fundamentally flawed. In particular, it is unlikely that IORPs would be able to predict the long term future profits of their sponsor(s). Sponsors themselves will likely focus only on the next 3-5 years in their projections, not the next 50 years over which the pension liabilities could be run off. What assumptions would IORPs make for projecting sponsor support over the lifetime of the IORP when that information will not be available to them? It would be inappropriate to ignore that future support.	Noted.
122.	Association of French Insurers (FFSA)	Q12.	The methodology proposed by EIOPA to link the maximum value of sponsor support to the amount written in the balance sheet of the sponsor might be relevant. In our opinion, it could refer to the IAS 19 principles but it would introduce a mismatch between economic valuation principle and accounting standards. However, the maximum value of sponsor support is also based on 2 others factors: a proportion of the excess assets over liabilities of the sponsor's balance sheet and the wealth which can be foreseen available for the IORP through future profits of the sponsor. We have questions on those two elements. - First, the amount of equity of the sponsor (excess of assets over liabilities) would be local-dependent since not every sponsor is regulated under the same accounting rules - Second, the reference to the present value of EBTDA (or net future profits) is not clear on the contract boundaries (can	Noted.

			we include new businesses?) and on the interest rate used to determine the present value. - Third, on both items, the arbitrary fixed proportion callable by the IORP is questionable.	
123.	Balfour Beatty plc	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. On a specific aspect, we do not understand why the parameter for the proportion of shareholder funds available for the IORP should be limited to 50% in determining the maximum value of sponsor support.	Noted.
124.	Barnett Waddingham LLP	Q12.	We do not agree with the methodology presented. Such an approach will not take into account variations by (for example) member state, industry, type of sponsor or economic conditions. As such we cannot suggest any appropriate parameters.	Noted.
125.	BASF SE	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. We welcome the proposal of EIOPA that all steering mechanisms	Noted.

			of IORPs should be explicitly taken into account in the regulatory framework. However, we think that the sponsor support is not adequately taken into account. EIOPA pursues a wrong approach by taking Solvency II as a starting point and striving to incorporate the specifics of IORPs into the Solvency II framework. Furthermore, the maximum value of the sponsor support is based on an accumulation of many assumptions (for example, arbitrarily determined thresholds for sponsor company's own funds, net profits and EBTDA as well as long-term forecasts for future financial conditions of the sponsor company). This makes the outcome very sensitive to any slight modification of the underlying assumptions.	
126.	Bayer AG	Q12.	No, please see answer to Q10.	Noted.
127.	Bayerischer Industrieverband Steine und Erden e.V.	Q12.	No, see previous answers.	Noted.
128.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q12.	No, see previous answers.	Noted.
129.	BdS – Bundesverband der Systemgastronomie e.V.	Q12.	No, see previous answers.	Noted.
130.	Belgian Association of Pension Institutions (BVPI-	Q12.	No. We feel uncomfortable with the methodology of valuing the	Noted.

			maximal value of the sponsor support. This formula refers to the current and future profit of the sponsor. Will sponsor disclose the necessary information to calculate the sponsor support? Will the sponsor be willing and be able to? (cf. disclosure rules for listed companies, …) How to apply this concept in the context of: ☐ Industry-wide plans? ☐ Multi-employer plans? ☐ Local subsidiaries of multinational groups? ☐ Companies who transfer the profit to the mother company? ☐ Non profit organisations? ☐ Public authorities? ☐ Semi-Independant public agencies? (How to determine the rating? The company wealth? Etc…) Why the worst case scenario for those sponsors who are not rated? Next to this we consider that the evaluation of the sponsor convenant is too much assumption and rating driven which makes its outcome very sensible to any slight modification of any assumption. We suggest to introduce a further simplification for the sponsor	

			support: acting together with the pension protection scheme as the closing element of the HBS.	
131.	BlackRock	Q12.	Please see our General Comment above.	Noted.
132.	Bosch Pensionsfonds AG	Q12.	See Q2 and Q10.	Noted.
133.	Bosch-Group	Q12.	See Q2 and Q10.	Noted.
134.	BT Group plc	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. No. We believe that any approach which seeks to value covenant through a single one-size-fits-all formula will not work. We note that a formula based on EBTDA gives entirely different results for identical companies with different capital structures – a different value is obtained if a company is funded by debt or equity. Similarly profitable businesses with different levels of capital expenditure will also show significantly different results. The proposed formula and parameters appear very arbitrary and are likely to lead to anomalous results for most companies. As a simple example, a new company with shareholder funds of 100 on day 1 would immediately be valued at 50 under the proposed methodology.	Noted.

			It is also unclear from the guidance which company should be used within a Group structure or indeed whether it is the entity or consolidated shareholder funds that should form the basis of the calculation. We recommend that EIOPA take advice from specialists in this area on the practicality of developing a single formula and the likely margin of error. There is a fundamental problem with the HBS if the covenant value cannot be relied upon. The IORP can override this simplistic formula but as there is no requirement to, this may not happen in practice. This would lead to the whole HBS being invalid. Alternatively, if most IORPs need to provide an alternative valuation, there will be a huge and unmanageable regulatory burden, together with significant expense to carry out the calculations. This needs to be considered further in any impact assessment.	
135.	BTPS Management Ltd	Q12.	No, we do not agree with the proposed calculation for the maximum value of sponsor support. It seems to us that the assumptions made for cash flows, default probabilities and recovery rates mean that the end product of these calculations	Noted.

			risks being arbitrary at best. We believe that EIOPA should consider alternative approaches to the assessment of sponsor support and pension protection schemes. We highlight in our response to Question 10 the level of detailed work that we put in to developing a bespoke assessment of the sponsor covenant, but we do not attempt to develop a single number but rather a range which attempts to reflect this support. We again suggest that where the pension obligations are the sponsor's rather than the IORP's itself, the sponsor support and the pension protection scheme provide the balancing item in any holistic balance sheet. This accurately reflects the legal nature of the situation and is clearly a simpler as well as a more accurate calculation.	
136.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q12.	About the valuation of maximum value of sponsor support: See answer to Q10.	Noted.
137.	Deloitte Total Reward and Benefits Limited (UK)	Q12.	No. As discussed in our response to Q10 and Q11, we do not consider that the methodology or parameters set out will lead to a meaningful result. In light of this, we suggest that EIOPA re-consider the holistic balance sheet approach. If EIOPA does proceed with this approach, the timescale for review should be extended to allow all stakeholders (including EIOPA) to assess alternative options to derive these parameters.	Noted.

138.	Deutsche Post DHL	Q12.	No, please refer to Q2. and Q10.	Noted.
139.	Dexia Asset Management	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. We do not agree with the methodology to estimate maximum sponsor support. 1. It is not adapted to multiemployer schemes, sponsors with several IORPs and sponsor which are subsidiaries of a group 2. It depends on unreliable estimates (future profits and EBTDA over long periods) Many parameters in the sponsor support valuation are not justified, for example the percentage of sponsor free capital and future profits available for the IORP. We believe sponsor support is one of the most important value in the QIS and therefore require deeper analysis. We think it cannot go without some qualitative assessment on a case by case basis.	Noted.

140.	EEF	Q12.	See our comments to Q4/5	Noted.
141.	European Association of Public Sector Pension Inst	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. See answer to Q10.	Noted.
142.	European Federation for Retirement Provision (EFRP	Q12.	Q12. Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. The EFRP does not agree with the methodology for valuing maximum sponsor support, because the assumptions made for cash flows, default probabilities and recovery rates are, at best, educated guesses. More investigation and guidance is necessary. The valuation of the sponsor support is extremely complex as explained in our answers to questions 6, 10 and 11. Furthermore, these valuations will be subjective and imply a	Noted.

			"model risk". These formulas refer to the current and the future profits of the sponsor. But how should the sponsor support of non-profit organisations or organisations which transfer their profit to the mother company be valued? And how many years of EBDTA should be included (the more years, the higher the value of sponsor support)? As a simplification for a first QIS, the sponsor support and/or the pension protection could be treated as a residual asset that fills a deficit shortfall between assets and liabilities including any capital requirement.	
143.	Federation of the Dutch Pension Funds	Q12.	No, see also Q6: More simplifications are warranted. As stated in our answer to question 5, starting with a first simple QIS and gradually deciding on where more sophistication is needed in the next QISs (at Lamfalussy Level 1) would guarantee a better process. The required evidence for obtaining allowance to simplify is extensive. The simplified calculation of sponsor support and PPS refer to the valuation of a 1 year period, thus only underfunding at the date of valuation is taken into account. Occurring shortages and resulting additional sponsor support in subsequent years are therefore neglected. This will result in underestimated market value of the sponsor support/PPS when compared with a stochastic approach (like risk neutral valuation) that does take	Noted.

			future shortages and hence future sponsor support into account. The proposal that the maximum sponsor support should depend on the financial position of the sponsoring company is not appropriate. The definition of sponsor's profit and excess assets over liabilities is meaningless as it does not tell anything about the sponsor's actual ability to provide financial support (the capital may be locked into non-liquid assets). Basing the sponsor support on EBDTA numbers is questionable. These numbers are very difficult to forecast, and can show a high dispersion among the various estimations (as we can see looking at forecasts by different analysts for the same company). A multiple of the annual pension cost or a percentage of the total salaries might be a better indicator of the sponsor's ability to provide additional support/guarantee. Deviation could be allowed where the IORP judges that the percentages are not realistic. The formulas for sponsor support are not useful in the case of a multi-employer fund, of which many exist such as the Dutch industry wide funds with sometimes more than 10.000 non-listed employers. It is not clear how to calculate the value of the sponsor support for these industry funds. Many items, like spread risk and market risk concentrations, are not relevant for IORPs and can easily be left out.	

			The concepts of cost of capital and risk margin seem not to be very useful for IORPs. For the risk margin, explicit calculation based on the current IORP directive may be easier for IORPs than the Solvency II method, and at the same time more accurate than the proposed simplification. In this respect we also refer to our answer on Q17. See our answer to Q11: As already mentioned in the answer to Q6, the valuation of the sponsor support and the pension protection schemes will be extremely difficult. It is unclear which consequences there will be for a company. These should therefore be investigated. If ratings are used for sponsor support, it is also important to take into account the judgement of rating agencies. Please also see the answer to Q6. These valuations will be very subjective and imply a high "model risk". For instance, how many years of EBDTA may be included (the more years, the higher the value of sponsor support)? An alternative approach is a direct comparison of the deficit with the shareholder value / free equity of sponsor.	
144.	Financial Reporting Council	Q12.	There is no perfect formula for measuring the maximum value of	Noted.

	– staff response		employer support. Any formula will have deficiencies. The proposed approach has some weaknesses – for example the approach would take account of the goodwill on a balance sheet which might not be realisable. The current wealth is based on the net assets of the sponsor adjusted for existing liabilities towards the IORP. The net assets might include assets which are not held at market value including financial assets, fixed assets, inventories, and goodwill for example. The proposal to only count 50% of net assets is arbitrary. Similarly the valuation of future wealth is arbitrary. We do not understand why in paragraph HBS.6.36 a basis is provided for projecting EBTDA but no basis is provided for projecting net profits. In our experience very few sponsors will have reliable future net profit forecasts going out more than two or three years; this implies that constraining the future wealth to the minimum of forecast net profits or a formula driven EBTDA forecast will usually default to the shorter term profit forecast. We wonder whether this is intended. It might be more sensible just to consider EBTDA. We note that100% of the balance sheet liability for IORP provision is included in the maximum support but only 50% of the available assets. If an employer made a large payment from	

			available assets to reduce the deficit the maximum employer support would increase by at least 50% of the payment.	
145.	German Institute of Pension Actuaries	Q12.	For the valuation of sponsor support it is crucial that the sponsor has the financial means to close a potential gap within the HBS. For this purpose, the present and future potential support has to be considered. Therefore, the (probability weighted) maximum value of sponsor support should be taken into account within the HBS, not only a part of it. If the sponsor has the financial ability to fully guarantee a potential gap in the HBS, the value of sponsor support should reflect this and close the gap. The same holds true for the valuation of pension protection schemes (PPS). If the PPS guarantees all relevant benefits, then the value of the PPS closes a potential gap within the HBS. In this case there is no need for further calculations. In cases where the sponsor support is contractually limited the sponsor support should be calculated with this maximum. In all other cases it isn't possible to get the information for any single employer without an expensive effort and in good time. For multi-employer IORPs it should be sufficient to base the estimate on a few representative sponsors (as recommended in HBS.6.35); otherwise, the inclusion of every single sponsor	Noted.

			would be excessive. The proposed market consistent valuation method of security mechanisms is overly complicated and in terms of the valuation of the deterministic and stochastic value of sponsor support it is inappropriate.	
146.	GESAMTMETALL - Federation of German employer	Q12.	No, see previous answers.	Noted.
147.	Groupe Consultatif Actuariel Européen	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. We agree with the spirit of the proposed calculations. However, the proposed calculations do appear to be overly complicated with many subjective assumptions about projected cash flows, discount rates and the correlation of IORP/sponsor survival probabilities. We believe other methods should also be considered – some simpler and perhaps less market consistent, and others more fit for purpose but requiring further research. It would be helpful to have greater clarity on the circumstances in which sponsor support should be included in the HBS. For example, in Ireland there is no statutory requirement on the	Noted.

			employer to fund any shortfall in the IORP but in practice the employer will use "best endeavours" to do so. Should this be considered as "limited" or "conditional" sponsor support which would perhaps be subject to an additional discount factor?	
148.	Hundred Group of Finance Directors	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. The methodology is over-complicated (and hence expensive to implement) and likely to give rise to results that are entirely spurious.	Noted.
149.	IBM Deutschland Pensionsfonds AG	Q12.	No. We do not agree with the proposed methodology and altering the parameters would not make a difference to this. As stated above, the valuation of sponsor support as proposed by EIOPA is not robust due to the number of assumptions that need to be made. Moreover, the input data required would mostly not be readily available. For example, EBTDA is a figure that is usually only published with respect to publicly listed and consolidated entities. Benefit promises, however, are made at the legal entity level and it is only the legal entity that is liable. Therefore, a consolidated EBTDA figure is irrelevant for the	Noted.

			purposes of this calculation. Non-publicly listed entities are not required to prepare financial statements in accordance with IFRS and, therefore, would not publish an EBTDA value. In addition, some sponsors may have more than one IORP. How would the maximum amount of sponsor support be allocated? It is not justifiable to use commercial ratings to estimate the default risk of sponsors especially in light of the fact that both the Commission and the European Parliament are committed to reducing the reliance on credit ratings in European legislation.	
150.	ICAEW - The Institute of Chartered Accountan	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. The QIS proposes a 'maximum' value approach which includes an assumption that 50% of shareholder funds are available to the pension scheme. However, no justification is given as to why this arbitrary figure would be an appropriate percentage. Similarly, the assumptions that 50% of expected future discounted net profit and 25% of EBTDA are available seem arbitrary with no underlying justification and therefore it is difficult to comment on them meaningfully. These are projected over the number of future years for which the sponsor support is included in the assessment and, for the purposes of the QIS, this is taken as the average duration of the expected future	Noted.

			cashflows of the IORP relating to obligations at the valuation date. This timeframe could be fairly long (likely to be in excess of 20 years) and it would be difficult to project over such a period. This approach to valuing the covenant appears to be a formulaic regulatory exercise not based on established valuation 'mark to market' approaches, and therefore there is little scope for accountants to comment on it. Two approaches are described for calculating an 'actual' value which both use an element of stochastic modelling. In our view, rather than requiring that a completely new methodology is used, it would be better to include further options for taking sponsor support into account, including: a) for the employer covenant to be included as a balancing figure, discounted for solvency, and b) use of existing valuation approaches that have been developed in the market over the past decade. We would be happy to provide further information on these possible alternative approaches if that would be helpful, either by way of correspondence or meetings. We also note that the methodology in the proposed QIS also does not deal with situations where the sponsor is not a corporate entity, nor where the pension scheme is a multi-employer scheme.	
151.	Institute and Faculty of Actuaries	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the	Noted.

			time period of the calculations. In our view EIOPA should consider all the options for taking account of sponsor support and pension protection schemes. The research we have commissioned should help EIOPA calibrate the approach it chooses and we look forward to sharing the results of that research with EIOPA as they become available. We consider that the QIS should assess how the value of sponsor support changes over time and the effect of any volatility on the impact of EIOPA's advice.	
152.	Insurance Europe	Q12.	Insurance Europe agrees with the principle to value a maximum value of sponsor support. In theory the suggested methodology seems reasonable. Unfortunately, the needed information is in general not easy to asses and – in case of many sponsors – to aggregate. Especially for multi-employer IORP it seems impossible to get all necessary information. For a multi-employer IORP there might be also a lot of unrated employers. To set all them to a default rating of CCC might not be appropriate. However an individual explanation why another classification is reasonable might be not feasible. It should be also possible for valuating on a portfolio of sponsors.	Noted.
153.	KPMG LLP (UK)	Q12.	How will this work for sponsors such as charities and other not-for-profit organisations? What allowances can be made for parent or group company support to sponsors, whether by way of formal guarantees or otherwise? The maximum sponsor support approach will prove unduly crude in most cases, due to the wide variation of capital structures and business models of different sponsors. Matters such as projected profit growth, inclusion or exclusion of exceptional	Noted.

			items etc, are not clear. We therefore foresee a need for most IORPs to use their own tailored approach. This will lead to considerations along the lines of the standard formula or internal model decisions facing insurers, but almost certainly without the supervisory resources to handle sponsor support model approval processes. Looking forward, consideration must also be given as to how regularly the valuation of maximum sponsor support should be updated, and the costs of doing so. The values of sponsors can change rapidly, either due to company-specific events or due to general market or economic conditions.	
154.	Mercer Ltd	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits/EBTDA and the time period of the calculations. The method proposed seems narrow and likely to result in a measure that does not properly reflect the extent of sponsor support available to some IORPs. We consider that IORPs and member state regulators should be allowed to consider all the various measures that are available for measuring sponsor support, taking local considerations into account. It is likely that more work needs to be done to fully understand those measures: sponsor covenant is a developing area and mandating a narrow and possibly uninformative measure might discourage IORPs from taking steps to consider better ways to assess covenant. For these reasons, we would suggest that	Noted.

			rather than mandating such a narrow approach, a principles based approach could result in more useful outcomes. See also our responses to Q2 and Q11.	
155.	National Association of Pension Funds (NAPF)	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. The NAPF does not agree with the methodology for valuing maximum sponsor support. The assumptions made for cash flows, default probabilities and recovery rates are – at best – educated guesses. The NAPF also has concerns on a number of points of detail: ☐ The provision at HBS.6.28(b) refers to future wealth by reference to "future profits" of the sponsor, showing once again	Noted.

			a lack of consideration towards non-profit making entities. ☐ The proposal at HBS.6.15 also makes no mention of how the ratings would be applied to the multiple sponsors of a multi-employer IORP – this would need to be spelt out. ☐ In HBS.6.29 there is a reference to "assets over liabilities of the sponsor's balance sheet". In some schemes of particular type and status, the assets on the balance sheet are not shown at market value. The trustees of such IORPs spend considerable time assessing the true value of the sponsor's assets available to the scheme, whether or not they exist (or are correctly reflected) on the balance sheet of the sponsor. ☐ In HBS.6.29, in the second bullet point, there is mention of "100% of the liabilities of the sponsor towards the IORP, as written in the balance sheet of the sponsor". For some non-sectionalised multi-employer pension schemes in the UK there is no separation of assets and liabilities between the scheme's participating employers, and, therefore, whilst the scheme is an IORP it has no scheme liabilities on the balance sheet, hence the wealth component in this case could not be correctly calculated. ☐ At HBS.6.35 there is mention of multi-employer IORPs, and it states that " … it is sufficient to make the calculations only for a sufficient number of (larger) employers for which data is available". It then states that the calculations can then be	

			grossed up if the results would be seen as representative. What if they would not be? This again is a very significant lack of detail and appreciation of the need to cover multi-employer arrangements. ☐ it is unclear whether recovery plan contributions should be included on top of assumed future net profits. The difference can be substantial and if they are additional (implied in the QIS specification) this could be considered to be double counting. As already noted, we believe that EIOPA should consider alternative approaches to the assessment of sponsor support and pension protection schemes. The consultation period has not been long enough for us to consider and propose suitable alternatives.	
156.	Punter Southall	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. The methodology is highly complex and unlikely to give rise to meaningful results.	Noted.

157.	Railways Pension Trustee Company Limited (RPTCL)	Q12.	Whilst we understand that you are seeking to allocate a value to sponsor support in a holistic balance sheet for the QIS, we are concerned that the proposed approach may in a number of aspects be overly-simplistic for many situations and could result in materially misleading results – even for a preliminary analysis solely for QIS purposes. IORP sponsors will, in practice, have vastly different and highly specific attributes to their available support. As practical issues, we observe that the availability of discounted cash flow forecasts in appropriate detail over long time horizons for a number of sponsors may be limited; and a number of public (and other) companies may be reluctant to share forward-looking information of this nature. To be proportionate, it may be helpful to have a category of sponsors which do not have to provide detailed analysis where there is clear evidence that their IORP obligations are very small relative to their enterprises as a whole (as evidenced by a market capitalisation or published net asset position). Evaluating sponsor support is a multi-dimensional exercise requiring consideration of a range of factors including inter alia an understanding of the sponsor's markets and its market dynamics; its historic and prospective financial performance; its balance sheet strength – including the composition of assets and liabilities; cash flow; the competing claims of other creditors – including the ranking of any security arrangements and other	Noted.

			IORPs; and contingencies, risks and sensitivities. We believe that the approach suggested in the document – which we do acknowledge is for a QIS and allows for tailored responses by IORPs and their sponsors – may not pick up on a number of key issues which could materially affect the analysis but which could be considered in a more holistic consideration of sponsor support using a "principles based" rather than formulaic approach. For example: a property company with a balance sheet substantially underpinned by real estate may well offer a significantly different recovery to a manufacturing company with an equivalent amount of diverse assets including inventory and intangibles; secured creditors may absorb all available assets in circumstances where the IORP itself is unsecured – but equally the IORP may benefit from some form of security structure; and a sponsor may have multiple IORPs requiring an analysis of their respective positions to determine true underlying balance sheet support. Finally, we observe that: ☐ the approach does not appear to reference results from models to actual market capitalisations and transaction values for listed sponsors or sponsors where a recent market price has been set in a transaction; and ☐ it should be made clear that the cap on recognized sponsor support is based on technical provisions plus the risk margin, otherwise it is not possible for the holistic balance sheet	

			to balance.	
158.	RWE Pensionsfonds AG	Q12.	The earnings definition should be a typical publicly available number. EBTDA does not fulfill this request. At least in situations where a pension protection scheme is in place, in our opinion sponsor support should be taken into account to the extend there are legal or contractual commitments.	Noted.
161.	Tesco Plc	Q12.	The methodology is far too complex to understand. Pension schemes who can afford to undertake the calculations may well simplify the methodology, which will lead to spurious results.We believe further time should be provided to allow consideration of alternative approaches.	Noted.
162.	Towers Watson B.V.	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. Our responses to questions 10 and 11 apply here.	Noted.
163.	Towers Watson GmbH, Germany	Q12.	We believe that using a kind of 'maximum value of sponsor support' is a more reasonable way to assess a sponsor's capability to provide additional support in case of demand than using a 'market consistent basis' approach. However, the	Noted.

			derivation of the maximum value of sponsor support again suffers from a seemingly arbitrary choice of parameters (e.g. EBTDA, which can be very different und different accounting regimes, IFRS, US- or local GAAP) and for IORPs with several sponsors, collecting data from its various sponsors seems to be an undue burden. We again refer to Towers Watson's letter of 11th June 2012 to Commissioner Barnier in which an alternative approach is outlined.	
164.	Towers Watson UK	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. Our responses to questions 10 and 11 apply here (repeated at the end of this section). We believe that EIOPA should consider alternative approaches to the assessment of sponsor support and pension protection schemes. As identified above, however, we believe that developing a quantitative methodology that caters for all circumstances is considerably more complicated than the consultation document implies. We would be happy to work with EIOPA and others to identify suitable alternative approaches but more time will be required than the consultation allows. On a specific aspect, we do not understand why the parameter	Noted.

			for the proportion of shareholder funds available for the IORP should be limited to 50% in determining the maximum value of sponsor support. Furthermore, it is unclear whether the maximum value of sponsor support is intended to change in stress scenarios, for example under the interest rate risk sub-module of the SCR. If so, then the implication is that the maximum value of sponsor support will increase with a downward shock in interest rates. We would question whether this is appropriate. We believe that the maximum value of sponsor support is more likely to be equity-like than bond-like (as the current proposal implies) in its behaviour. Answer given to question 10: Our concerns raised earlier remain: a number of the central parameters provided seem arbitrary (perhaps by necessity) and that this is likely to compromise the objective of market consistency. In addition, there is room for very different interpretations of the parameters, such as the expected future profits, which seems to be inconsistent with the principle of market consistency. We also reiterate the point that the complexity of the arrangements and corporate inter-relationships through which sponsor support is provided to IORPs militate against a formulaic approach to the assessment of sponsor support. We consider that EIOPA should look at other options for taking account of sponsor support and pension protection schemes, focusing on an assessment of the maximum value of these items that could be applied to the IORP. Please see the proposal Towers Watson in our letter to Commissioner Barnier on 11 June 2012 put forward in this context.	

			Answer given to question 11: We understand that the ECON has recently advised in its statement of 19 June 2012 that "no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade" – so it seems likely that EIOPA will need to amend this aspect of its advice. From a purely technical view, there may be different ratings given to a sponsor by different rating agencies. In particular, there may be some rating agencies whose ratings of the sponsor are out-dated or non-existent. Furthermore, credit ratings are not necessarily a reliable guide to the probability of default on a sponsor's pension obligations. The issue discussed in response to question 2 above, regarding treatment of sponsors within a group of associated undertakings and with links to cross-border and non-EEA entities, also applies here. It seems reasonable when assessing the strength of sponsor support to consider the position in the event that that sponsor becomes insolvent. However, it is evident that a lot more thought is needed as to how to go about this – on the basis that use of credit ratings is inappropriate. Looking at the issue of groups of undertakings and cross-jurisdictional issues, it is evident that to take this into account in a formulaic but fair way will be complex and hence both time-consuming and expensive . For example, past experience suggests that the value of sponsor support can alter significantly over relatively short timescales and due to factors that may not be quantifiable until after the event. We believe that the above points are grounds for considering	

			alternative approaches, and we draw EIOPA's attention once again to Towers Watson's letter of 11th June 2012 to Commissioner Barnier.	
165.	Trades Union Congress (TUC)	Q12.	The methodology appears to be over-simplified. For example, there is little or no guidance on non-profit sponsors, multi-employer IORPs or cases or IORPs where where assets on sponsor balance sheets are not shown at market value.	Noted.
166.	Universities Superannuation Scheme Limited	Q12.	Do stakeholders agree with the methodology set out to value the maximum value of sponsor support (Section 2.6)? Do stakeholders have suggestions for the parameters used in valuing the maximum amount of sponsor support? In particular, with regard to the proportions of future profits / EBTDA and the time period of the calculations. We do not agree with the methodology for valuing maximum sponsor support. The assumptions made for cash flows, default probabilities and recovery rates are – at best – educated guesses. These calculations are detailed judgments made by IORP trustees and they have not been encapsulated adequately or completely in the draft QIS specification, and a further	Noted.

			specific QIS on this issue would be necessary. We have concerns on a number of points of detail: ☐ The provision at HBS.6.28(b) refers to future wealth by reference to "future profits" of the sponsor, showing once again a lack of consideration towards non-profit making etc. entities. ☐ The proposal at HBS.6.15 also makes no mention of how the ratings would be applied to the multiple sponsors of a multi-employer IORP – this would need to be spelt out. ☐ In HBS.6.29 there is a reference to "assets over liabilities of the sponsor's balance sheet". In some schemes of particular type and status, the assets on the balance sheet are not shown at market value. The trustees of such IORPs spend considerable time assessing the true value of the sponsor's assets available to the scheme, whether or not they exist (or are correctly reflected) on the balance sheet of the sponsor. ☐ In HBS.6.29, in the second bullet point, there is mention of "100% of the liabilities of the sponsor towards the IORP, as written in the balance sheet of the sponsor". For some non-sectionalised multi-employer pension schemes in the UK such as USS there is no separation of assets and liabilities between the scheme's participating employers, and, therefore, whilst the	

			scheme is an IORP is has no scheme liabilities on the balance sheet, hence the wealth component in this case could not be correctly calculated. ☐ At HBS.6.35 there is mention of multi-employer IORPs, and it states that " … it is sufficient to make the calculations only for a sufficient number of (larger) employers for which data is available". It then states that the calculations can then be grossed up if the results would be seen as representative. What if they would not be? This again is a very significant lack of detail and appreciation of the need to cover multi-employer arrangements. We would argue that if the Holistic Balance Sheet approach is to be adopted, then a value should be ascribed to the sponsor support and for it simply to be shown as an value on the asset side of the balance sheet, rather than adopting the proposed system of assuming benefit reductions.	
167.	UVB Vereinigung der Unternehmensverbände in Berlin	Q12.	No, see previous answers.	Noted.
168.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q12.	No, see previous answers.	Noted.
169.	Vereinigung der hessischen Unternehmerverbände (Vh	Q12.	No, see previous answers.	Noted.

170.	Zusatzversorgungskasse des Baugewerbes AG	Q12.	We refer to our General Comment as well as our answers to Q10 and Q11.	Noted.