

**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**

**EIOPA-BOS-  
12/086**

**Q13 - Q15**

**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; EAPSPI; EFRP; Federation of the Dutch Pension Funds; Financial Reporting Council; German Institute of Pension Actuaries; GESAMTMETALL; Groupe Consultatif Actuariel Européen; Hundred Group of Finance Directors; IBM Deutschland Pensionsfonds AG; 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

<b>No.</b>	<b>Name</b>	<b>Reference</b>	<b>Comment</b>	<b>Resolution</b>
1.	OPSG	Q13.	<p>The OPSG agrees with the proposals of performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium and to allow IORPs – under conditions – to apply the so-called matching premium in order to take into account the long-term nature of pension liabilities.</p> <p>Referring to the counter cyclical premium (HBS 8.12), the OPSG would like to mention that this adjustment could be helpful, but</p>	<p>Partially agreed.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Matching adjustment will be tested as well</p>

			<p>in the current market environment (distorted by government intervention) a 50bp upward adjustment in the risk-free yield curve does not do justice to historical observations. In addition, more information will be necessary with respect to the conditions for when the counter cyclical premium can be used.</p> <p>With respect to the matching premium (HBS.8.13), the OPSG welcomes the QISs recognition that near and medium term duration technical provisions will often be hedged by IORPs as the market for risk-free (government) hedging 'short and medium term' instruments is deep.</p> <p>It is still unclear in the technical specifications how the adjustment of the risk-free interest rate curve (Ultimate Forward Rate, counter cyclical premium) will interfere with the (option) valuation of the steering and adjustment mechanisms. For this valuation, normally a non-adjusted risk-free interest rate curve is used (risk neutral valuation). More explanation in the technical specifications will be necessary in order to prescribe a consistent valuation approach in the HBS, as currently this is not possible.</p>	<p>as its conditions</p> <p>IORP should use (adjusted) basic risk free interest rate curve in valuation</p>
2.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is insufficient given the historical range of interest rates and does not adequately take into account the long-term nature of pension liabilities.</p>	<p>Partially agreed.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

3.	AEIP – The European Association of Paritarian Inst	Q13.	<p>No, AEIP does not agree with this approach to take into account the long-term nature of pension liabilities.</p> <p>AEIP would like to remind that the calibration of the counter cyclical premium and the matching premium for Solvency II is still under discussion and that IORPs have not been formally consulted in this discussion. We thus believe it is difficult to agree with the approach proposed.</p> <p>Moreover, it is not clear if the dampener proposed would be effective and if 50bp would actually be enough.</p> <p>As there is no market deep enough for pension liabilities in Europe, we invite EIOPA to further reflect on that and be careful to use market rates because there is risk to distort the market and to push pension funds in hedging those risks, thus distorting the markets even further.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim of QIS is to test the adjustments for IORPs</p>
6.	Aon Hewitt	Q13.	<p>We agree it is appropriate to consider use of a counter-cyclical premium and a matching premium. This reflects the strong, long term nature of support to IORPs. We are concerned that, for many IORPs, they will not be able to benefit from a matching premium as assets and obligations are not ring-fenced.</p>	<p>Noted.</p> <p>Matching adjustment will be tested as well as its conditions</p>

			<p>In order to use a matching premium, Annex 2 contains a number of conditions, including that the assigned portfolio of assets are ring-fenced and managed separately from the rest of the obligations. This appears to be overly restrictive. Many IORPs, especially in the UK, back part of their obligations (e.g. pensioners) with bonds and other assets with similar characteristics. However these are not separately ring-fenced within the IORP, and so it may not be possible to benefit from the matching premium based on the current drafting of Annex 2.</p> <p>We recommend that EIOPA considers further how this can be applied to IORPs in order that they can potentially benefit from this approach.</p>	
7.	Association of British Insurers	Q13.	<p>The ABI welcomes an approach that will reflect the long-term nature of the liabilities of pension funds.</p> <p>However as already noted uncertainty remains in the Solvency II framework especially around the area of mechanisms for products which offer long-term guarantees. Workable solutions for these products should be found there before testing these mechanisms for IORPs. Further adjustments may also be required to account for the differences between pension funds and insurance contracts.</p>	<p>Noted.</p> <p>Some of the latest measures will be tested</p>
8.	Association of Consulting Actuaries UK	Q13.	<p>We question whether many IORPs will in reality be able to take advantage of the "matching premium" given the current</p>	<p>Noted.</p> <p>QIS will test matching</p>

			wording/restrictions.	adjustment as well as its conditions
9.	Balfour Beatty plc	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so- called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long_term nature of pension liabilities?</p> <p>We consider that EIOPA should consider all the options for taking into account the long-term nature of pension liabilities.</p>	Noted.
10.	Barnett Waddingham LLP	Q13.	We do not believe the matching premium, as drafted, will be of any benefit to IORPs due to the stringent conditions which apply, for example ringfencing. We believe Annex 2 should be rewritten to allow IORPs to make allowance for the matching premium where the IORP's Statement of Investment Principles or equivalent can demonstrate that part of the asset portfolio is intended to match part of the liability cashflows to a reasonable degree.	<p>Noted.</p> <p>QIS will test matching adjustment as well as its conditions</p>
11.	BASF SE	Q13.	The draft technical specifications propose performing an upward shift in the basic risk free interest rate curve to approximate the so called counter cyclical premium or to allow IORPs – under conditions – to apply the so called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

			<p>We welcome all measures that better take the long-term nature of pension liabilities into account. However, shifting the yield curve by 50 basis points will have only a very little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The valuation for technical provisions on a market-consistent basis does not fit the business model of IORPs and will lead to volatile and pro-cyclical results.</p> <p>Furthermore, given that the Holistic Balance Sheet approach is based on Solvency II which in turn relies on the capital adequacy framework for the banking industry, we fear that the convergence of behaviour influencing regulation will increase the risk to the financial system and the wider economy (for example, in crises situations effects on capital markets will be pro-cyclically accelerated).</p>	
12.	Bayer AG	Q13.	No, see previous answers.	
13.	Bayerischer Industrieverband Steine und Erden e.V.	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>

			<p>premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	
14.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>
15.	BdS – Bundesverband der Systemgastronomie e.V.	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation</p>	<p>Noted.</p> <p>100 bps CCP included</p>

			<p>assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	<p>that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>
16.	Belgian Association of Pension Institutions (BVPI-	Q13.	<p>No.</p> <p>We raise the question if the swap curve is the adequate point of reference, since these are financial derivatives offered by and thus marketed by banks. Pricing of swaps in itself bears market and default risk. Through the pricing of swaps by banks, there may be significant market effects (e.g. deviation between the swap spread and Belgian OLO's or Europe aggregate AAA government bond curve ?) in function of the bank balance sheets.</p> <p>We wonder and doubt if the swap market can really be</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

			<p>considered as a market which is deep enough as described in HBS 3.13?</p> <p>One could question as well if their exist uberhaupt a financial market which is deep enough to absorb –without distortion- all European occupational pension liabilities?</p> <p>It is not totally clear if the shift of 50 basis points is enough to reflect the long term nature of the pension liabilities of the IORP. This needs further investigation.</p> <p>We wonder why EIOPA does not use the expected rate of return (as allowed in the actual IORP directive, eventually with the returns given by EIOPA in HBS 8.18 and following)?</p> <p>We consider that this would reflect much more the real live of the IORP then a (constructed) index without a direct link to the IORP.</p> <p>As such we would prefer to get level B, the expected return on assets, as the default approach.</p>	
17.	BlackRock	Q13.	Please see our General Comment above.	
18.	BT Group plc	Q13.	The draft technical specifications propose performing an upward shift in the basic risk free interest rate curve to approximate the so called countercyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long term nature of pension liabilities?	Noted.

			<p>Any methodology should reflect the position of pension schemes as long term investors. As a result of differences between pension schemes and insurers, EIOPA should consider a suitable approach from first principles rather than directly transposing any Solvency II measures.</p> <p>In the UK, gilt yields are at historic lows as a result of quantitative easing and the current status of UK gilts as a safe-haven investment. Any framework should not be overly reliant on market pricing at any particular date given the long term nature of IORPs.</p>	
19.	BTPS Management Ltd	Q13.	<p>It will be difficult for UK IORPs to apply the matching premium methodology as liability matching assets are not segregated until an actual buy-out has occurred. Given that this is typically through an insurance company the liabilities at that stage are covered by the Solvency II regime.</p> <p>We are concerned about a proposal to calculate the HBS based on a single day's figure for swap bid rates. We understand that the Dutch regulatory authorities will shortly move to the use of figures from the prior month, introducing some smoothing and reducing the risk of single spike figures having severe and unhelpful implications. We would go further and argue that a methodology needs to be applied which reflects the long-term nature of pension schemes and their ability to traverse cycles such as today's low interest rates – meaning that a smoothing approach should encompass more than a single month's figures.</p>	<p>Noted.</p> <p>Matching adjustment will be tested as well as its conditions</p> <p>100 bps CCP included that serves as an approximation of formula based approach, which may differ between markets</p>

			<p>Having said this, we would add further that smoothing is not the ideal approach as even with a long-term approach the quality of the data and the quality of the markets can mean that the impact is highly variable. We encourage EIOPA to explore a more appropriate approach which recognises the long-term nature of pension schemes (as contrasted with the different nature of insurance provision), one option for which would be to take a flexible approach to recovery plans.</p> <p>We are also concerned about the proposal for the counter-cyclical premium which suggests that a uniform adjustment (50bp) be applied across all markets. We would suggest that to be market consistent this would need to vary across markets to take account of different yield curves and related different historical and implied volatilities in each market.</p>	
20.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q13.	<p>About basic risk free interest rate curve:</p> <p>Risk free rate does not represent the liability of a pension fund; it is possible there is no market deep enough for pension liabilities in Europe. We need a rate that reflects the nature of the risk of long-term liabilities of a pension fund.</p> <p>The use of a countercyclical premium can be a good solution during stress market conditions but it's necessary that EIOPA</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Matching adjustment will be tested as well as its conditions</p>

			<p>defines a rule about the application's time and methodology. It is mandatory that the rules have to be adjusted in order to meet the specificity of every country.</p> <p>About Matching Premium we think that is necessary a more appropriate definition of the requirements in particular about surrender options. For example in Italy there is the possibility for a pension fund member to choose to move his financial position to another IORP or to require an early payment of lump sum in particular cases.</p> <p>In short in our opinion the use of the two different approaches doesn't seem enough adequate as adjustment of risk free interest rate structure because for example it doesn't reflect in a right manner the problem linked with the substitution rate that characterizes the pension fund business. In other words, the assets mix correlated to liabilities could be different in case of accumulation period or annuity payment period.</p>	
21.	Deloitte Total Reward and Benefits Limited (UK)	Q13.	<p>The technical specifications propose that the starting point for discount rates is the risk free interest rate curve derived from swap yields. However, there is a very active current debate within the global pensions industry around the appropriate starting point in setting discount rates. The very long-term nature of pension liabilities, the spread of supposedly 'risk free' rates depending on the issuer (for example, at the time of writing the spread between French and German sovereign debt is c.1%) and the impact of temporary factors such as Quantitative Easing on certain rates are creating challenges in setting a baseline risk free rate and leading to a wider range of market practice in this area. We suggest that in light of this current debate, all stakeholders require a longer timescale to give due consideration to the rate which would be appropriate</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Matching adjustment will be tested as well as its conditions</p>

		<p>to use under a holistic balance sheet approach.</p> <p>Given the long-term nature of IORPs liabilities and the relatively stable cash outflow, IORPs can generally withstand a high degree of illiquidity on their investments. We therefore consider that the proposed upward shift to the interest rate curve to reflect market illiquidity and credit risk exaggeration is justifiable, if a holistic balance sheet approach were to be adopted.</p> <p>As regards the matching premium option, the conditions that must be satisfied appear to have been lifted directly from Solvency II requirements. Some changes to the requirements to reflect the differing position of IORPs are likely to be required; as currently drafted, we believe the conditions are too restrictive to apply to IORPs. For example:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> condition 1.b) set out in Annex 2 requires that the assigned asset portfolio be ring-fenced without any possibility of transfer. This is likely to be too restrictive to apply to UK IORPs. We propose that the requirement is adjusted such that the assigned portfolio of assets needs to be ring-fenced, however this may be a notional ring-fencing provided it is specified in relevant IORP documentation (e.g. the Statement of Investment Principles). In addition, such ring-fencing should be permitted to be reversible, provided of course that application of the matching premium would cease if the ring-fencing were to cease.</li> <li><input type="checkbox"/> condition 1.e) set out in Annex 2 is also likely to be too restrictive to apply to many IORPs. Given the wide range of different risks to which IORPs across the EU are subject, we consider it would be reasonable to delete this condition. The</li> </ul>	
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			<p>remaining conditions should provide sufficient comfort that IORPs will only be able to apply the matching premium where appropriate.</p> <p><input type="checkbox"/> in several areas of Annex 2, the IORP is required to notify the supervisory authority of any changes. Given the large number of IORPs across the EU, this risks supervisory authorities being overwhelmed with notifications. We suggest any requirements to notify supervisory authorities are dealt with as part of the decision on the overall purpose of the holistic balance sheet and requirement to provide the output to supervisory authorities.</p>	
22.	Deutsche Post DHL	Q13.	<p>Yes, basically counter cyclical measures are more than welcomed. Shifting the yield curve by 50 bps is however somehow arbitrary, will have only limited impact and does not adequately take into account the long-term nature of pension liabilities. A more long-term approach (average over longer period) appears to us more reasonable and feasible.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>
23.	Dexia Asset Management	Q13.	<p>Q13. The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p>	<p>Noted.</p> <p>Methodology of CCP and MA is elaborated upon</p>

		<p>We think it would be simpler and more useful to lower the volatility of discount rates using an extrapolation of the swap curve from year 10 to year 30 to an UFR of 4.2%, all the more when little guidance is given on the calculation methodology of countercyclical and matching premiums.</p> <p>Liquidity is not a major risk for the IORP: they have a long time horizon and their members do not play against the IORP (repurchasing its pension rights is not always possible and would in any case involve to change job).</p> <p>Using market valuation for valuing pension liabilities is theoretically the best option, but not only does it create short term volatility where there is no short term liquidity risk but also most of the pensions risks cannot be hedged at macro level:</p> <ol style="list-style-type: none"> <li>1. There are supply and demand mismatches: <ol style="list-style-type: none"> <li>a. Only 20% of the bond market matures after 10 years while pension liabilities are much longer. At macro level it is thus impossible to hedge the interest rate risk.</li> <li>b. The inflation market is not deep enough to remove inflation risk (UK inflation linked gilt market is not large enough to hedge all UK pension liabilities)</li> </ol> </li> <li>2. Inflation and demographic hedging markets are incomplete (you can neither hedge Belgian inflation nor longevity risk)</li> </ol>	
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24.	European Association of Public Sector Pension Inst	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>EAPSPI welcomes EIOPA’s attempt to reach a higher discount rate for valuing pension obligations as it lowers the burden of the inappropriate and immense increase of the value of technical provisions when calculated with the fictitious basic risk-free interest rate. However, a vertical shift in the yield curve still transfers the volatility of market interest rates into the balance sheets of IORPs. Thus the counter cyclical premium and the matching premim are not appropriate for IORPs as they do not take into account appropriately the long-term nature of pension liabilities:</p> <p>The general inappropriateness of Solvency II’s pillar I and the SCR for IORPs cannot be solved by allowing for some adjustments for an inappropriate structure. The necessity of introducing a markup on the discount rate to reflect somehow the long-term nature of pension liabilities seems to be arbitrary. It is necessary to include the specific characteristics of IORPs: the stability and the long term character of liabilities lead to long reaction periods and investment horizons of IORPs that strongly mitigate various risks IORPs are facing. The structure</p>	<p>Noted.</p> <p>Solvency II based approach follows from Commission’s CfA</p>

			of Solvency II does not properly reflect this substitutional character.	
25.	European Federation for Retirement Provision (EFRP)	Q13.	<p>Q13. The draft technical specifications propose performing an upward shift in the basic risk_free interest rate curve to approximate the so_called counter cyclical premium or to allow IORPs – under conditions – to apply the so_called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long_term nature of pension liabilities?</p> <p>The EFRP wonders if financial markets will be deep enough to fulfill the requirements sets by EIOPA in HBS 3.13. Not all EFRP members agree that market-based valuation of liabilities is useful.</p> <p>If the European Commission and EIOPA impose market-based valuation of liabilities, the EFRP would welcome the principle of the use of the counter-cyclical premium. But we do not agree with the proposed approach and feels that more analysis and guidance from EIOPA is needed.</p> <p>A vertical shift in the yield curve does not change the volatility and hence does not adequately take into account the long-term nature of pension liabilities. It is not clear if the shift of 50 basis points is enough to reflect the long term nature of the pension liabilities of the IORP. Given current market circumstances, 50</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Matching adjustment will be tested as well as its conditions</p>

			<p>bps seems to be a low number from an historical perspective. This needs further investigation.</p> <p>Besides that, this could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (eg. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it ethical that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p> <p>The proposed criteria for using the matching premium seem to be ill-suited for IORPs, because it is directly copied from Solvency II. Using the matching premium will not be allowed for pension contracts based on intergenerational risk sharing, which is one of the distinctive characteristics of IORPs compared to insurance companies.</p>	
26.	Federation of the Dutch Pension Funds	Q13.	<p>For the purpose of this QIS and for the time being until discussions on this matter will be final, we can support this approximation.</p> <p>We give into consideration to study whether 50 bps are enough to estimate both matching and countercyclical premium. Given current market circumstances, 50 bps seems to be a low number from a historical perspective.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

			<p>The proposed criteria for using the matching premium seem to be ill-suited for IORPs, because these are directly copied from Solvency II. Using the matching premium will not be allowed for pension contracts based on intergenerational risk sharing, which is a key characteristic of IORPs compared to insurance companies.</p> <p>Next to the approximation of the so-called matching premium and countercyclical premium, we would also like to draw attention to the third measure that is suggested to account for the long-term nature of pension liabilities, the use of the UFR as extrapolation method where the interest rate markets are less liquid and distorted. We fully support the need for an extrapolation method. Such a method also provides stability to the illiquid part of the interest rate curve. Experience in among others the Netherlands has shown that without such a method, large volatility can result from small transactions in the markets, with substantial consequences for the valuation of technical provisions. As to the question, whether the proposed UFR-method is the best extrapolation method, there are some concerns with respect to the tension between 'regulatory' and 'economic' hedging, the possibly severe market imbalances due to the huge demand for fixed income assets around the last liquid point (and selling of shorter and longer dated assets), the negative consequences for economic hedges already set up and the complex methodology. Therefore, more research should be done on the UFR-method.</p>	<p>Matching adjustment will be tested as well as its conditions</p>
27.	Financial Reporting Council	Q13.	We consider that it is reasonable to include an upward	Noted.

	- staff response		adjustment to the basic risk-free rate to reflect the illiquidity implicit in an IORP's liabilities. This reflects the long term nature of IORPs and is consistent with the approach for Solvency II.	100 bps CCP included that serves as an approximation of formula based approach
28.	German Institute of Pension Actuaries	Q13.	<p>No. A simple upward shift of the yield curve does not reflect the long term nature of pension liabilities. The 50bp shift appears to be arbitrary though. Given the historical range of interest rates and the duration of pension liabilities often significantly exceeding 15 or 20 years, a simple vertical shift of 50 basis points is not sufficient to reflect the nature of pension liabilities. Also, a simple vertical shift does not resolve the problem that market-based risk free interest rates are quite volatile whilst the liabilities are not. So, using an interest rate as proposed for 'Level A' valuation sets inconsistent management incentives for a pension fund that should be a steady long-term investor in capital markets. In general, a 'best estimate' valuation of pension liabilities should not be based on risk free rates of return but rather – as supposed by IAS19 and US-GAAP (ASC 715/FAS 87) – closer to a high quality corporate bond yield. The 'Level B' discount rate in this sense much more appropriately (if amended – see comment on Q14) reflects the nature of pension liabilities.</p> <p>In addition, independently of the measure for the discount rates a long-term moving average of interest rates should be considered where the term for calculating the average should be close to an average duration of pension liabilities.</p> <p>The suggested matching premium concept as specified in Annex</p>	<p>Noted.</p> <p>Matching adjustment will be tested as well as its conditions</p>

			2 – at least from a German point of view – does not seem to be in step with actual practice and seems to be quite theoretical in nature. Managing a pension fund or part of it under such restrictive conditions may even cause serious danger for the funding level since the management could not react on changing market conditions which are typically difficult to foresee at all times.	
29.	GESAMTMETALL - Federation of German employer	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>
30.	Groupe Consultatif	Q13.	The draft technical specifications propose performing an upward	Noted.

	Actuariel Européen		<p>shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>We understand that this remains a contentious political issue within Solvency II and suggest that this should be considered for IORPs in light of changes that are introduced within Solvency II. A staged IORP QIS process would facilitate this.</p> <p>In relation to the specific upward shift contemplated, we are concerned that this does not support the market consistency of the valuation of the liabilities.</p> <p>However, if this approach were to be followed, consideration should be given as to whether 50 bps is appropriate to cover both the matching and countercyclical premium.</p> <p>A third measure contemplated in relation to long-term – such as pension – liabilities is the use of an Ultimate Forward Rate (UFR) as the extrapolation method where the interest rate markets are less liquid. We fully support the need for an extrapolation method that provides stability to the illiquid part</p>	<p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment for hedged liabilities</p>
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			<p>of the interest rate curve as, without such a method, large volatility can result from small transactions in the markets with substantial consequences for the valuation of technical provisions. However, the UFR method is not the only means of achieving greater stability and, as currently contemplated, it has some important shortcomings, for example:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The UFR presents a difficult balance between 'regulatory' hedging and 'economic' hedging, since it deviates from market prices. To set up a 'regulatory' hedge, IORPs are likely to incur large transaction and operational costs because of the need for dynamic hedging. Setting up an 'economic' hedge may lead to non-compliance with regulation.</li> <li><input type="checkbox"/> The UFR can lead to severe market imbalances due to the huge demand for 20-year interest rate (the last liquid point). This may, in itself, exacerbate market illiquidity beyond this 20-year point.</li> <li><input type="checkbox"/> IORPs with existing liability hedges might be impacted detrimentally throughout any transition to an UFR.</li> <li><input type="checkbox"/> The method is rather complex, taking a detour via forward rates in order to stabilize spot rates. This detour is, and leads to, less transparency. A method that directly affects the spot rates relevant for valuation might prove to be more appropriate and transparent.</li> </ul> <p>Our view is that, if the UFR features in this QIS, EIOPA should confirm that this is for the purpose of this QIS only and not does imply any preference for a discount rate within any new IORP Directive. We suggest that considerably more research is</p>	
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			needed on this point.	
31.	Hundred Group of Finance Directors	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>We agree that the calculation should take account of the long-term nature of pension liabilities.</p> <p>However, our understanding is that the circumstances in which the matching premium can be used are so restrictive as to be worthless to most UK IORPs, even though there may be a high degree of matching between liabilities and assets.</p>	<p>Noted.</p> <p>Aim is to test matching adjustment as well as its conditions</p>
32.	IBM Deutschland Pensionsfonds AG	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is insufficient given the historical range of interest rates and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (eg. in respect</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>

			of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it ethical that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.	
33.	Institute and Faculty of Actuaries	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long -term nature of pension liabilities?</p> <p>We consider that EIOPA should investigate all the options for taking into account the long-term nature of pension liabilities. We would be happy to work with EIOPA to identify these but more time will be required than the consultation allows.</p> <p>However, our immediate observations are:</p> <p>Counter-cyclical premium</p> <p>The proposal/option seems to suggest a uniform adjustment (50bp) across all Member States. We wonder whether this should vary by currency and, indeed, by Member State. We also question whether a 50bp adjustment would be large enough to serve the intended purpose.</p> <p>Matching premium</p> <p>We are disappointed that the draft QIS specifications have been</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based outcome, which may differ between currencies</p> <p>Aim is to test matching adjustment as well as its conditions</p>

			<p>imported from Solvency II with minimal adjustment. In particular we are concerned at the limited circumstances in which a matching premium may be used and we remain to be convinced that such restrictive conditions are appropriate. Indeed we would argue that far from resulting in a level playing field, a regime in this form will favour those who can take advantage of the matching premium, which will include few IORPs.</p> <p>We have a concern that the bond markets are just too small to accommodate a matching premium based approach that depends on the assets held by IORPs. We suggest that EIOPA consider as an alternative an illiquidity adjustment that reflects the (potentially unlimited) size of the sponsor support and which uses a liquidity premium based on, for example, dividend yields with a future increase in line with relatively conservative GDP growth assumptions</p>	
34.	Insurance Europe	Q13.	<p>Insurance Europe strongly welcomes this approach as it considers it most appropriate and important that the specific features addressing the liabilities with a long-term nature - will be appropriately tested. This could also help to assess the adequacy if the latest proposals for long term guarantee products as under discussion in Solvency II. However, it is very important that solutions are applied both to pension funds and insurers providing products with a long term guarantee.</p> <p>The Commission, Council and European Parliament are currently discussing the issues for insurers providing long-term guarantees in the context of the Omnibus II Directive. The outcomes of these discussions should be the basis in the final technical specifications of the QIS.</p>	<p>Noted.</p> <p>Some of latest proposal will be tested</p>

35.	KPMG LLP (UK)	Q13.	<p>Yes, we believe that such measures are helpful in recognising the nature of IORPs' liabilities. If the matching premium approach is applied, we would suggest looser criteria than have been proposed for insurers, noting that IORPs may simultaneously wish to use instruments that offer a mark to market hedge as well as a cashflow hedge, as a result of the variety of valuation measures that apply to them (e.g. IFRS, pension protection valuations etc).</p>	<p>Noted. Aim is to test matching adjustment as well as its conditions</p>
36.	Mercer Ltd	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions –to apply the so called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long term nature of pension liabilities?</p> <p>First we consider reference to a 'risk-free' interest rate to be misleading and would prefer the use of 'least risk'. Particularly given the recent and ongoing market turmoil, the known inadequacy of market processes and market pricing, and the importance of the language used in communications and regulatory statements, EIOPA should reflect on the degree to which it is possible to have 'risk free' financial markets.</p> <p>We observe, in particular, the contradiction between proposing a so-called 'risk free' rate and the requirement to deduct 10bp from that rate to allow for credit risk.</p>	<p>Noted. 100 bps CCP included that serves as an approximation of formula based outcome, which may differ between currencies Solvency II based approach follows from Commission's CfA</p>

			<p>The proposal to apply a 50bp adjustment at all points of the yield curve and in all member states is unlikely to provide useful information, since the adjustment is arbitrary, unlikely to reflect the 'nature of pension liabilities' in every member state and is clearly irrelevant when considering the transfer price of the liability to a third party. In addition, market illiquidity including potential stress caused by current market conditions, is likely to vary between member states (and in particular across currencies). Further, the impact on liabilities depending on whether this 50 basis points is driven by an increase in inflation expectations or an increase in real interest rates could vary enormously, and this distinction is of immense importance to many defined benefit schemes.</p> <p>We are also concerned by the comment in HBS8.14 that issues relevant to this section are being considered in the context of insurance companies and the results of these discussions will be reflected in the final QIS. This reflects a lot of our concern about the approach to the revisions of the IORP Directive, which appears to be to apply regulatory principles developed for the insurance market to IORPs. Even in those cases where IORPs look very much like insurance companies, there are fundamental differences, particularly in the nature of the contract between the IORP and scheme members and the different ways IORPs access financial support.</p>	
37.	National Association of Pension Funds (NAPF)	Q13.	The draft technical specifications propose performing an upward shift in the	Noted. Potential use of Level B

		<p>basic risk-free interest rate curve to approximate the so-called counter</p> <p>cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>It is not clear from the consultation how the 'Level A' and 'Level B' measures of Technical Provisions will be used in practice. If – as seems possible – the intention is that Level A would have some kind of precedence, then it would be better to swap the 'Level A' and 'level B' measures, so that the principle measure used in the Holistic Balance Sheet would be based on the expected rate of return on assets.</p> <p>Many pension schemes will inevitably be concerned that the Holistic Balance Sheet calculations will be based on one day's figure for swap bid rates. We note that the regulatory authorities in the Netherlands are about to move to using figures from the last month, which introduces a degree of smoothing and reduces the risk of the Holistic Balance Sheet being based on figures that represent a 'spike' rather than the overall market situation.</p>	<p>measure has been clarified</p> <p>100 bps CCP included that serves as an approximation of formula based outcome, which may differ between currencies</p> <p>Aim is to test matching adjustment as well as its conditions</p>
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			<p>In relation to the approximations considered :</p> <p>Counter-cyclical premium</p> <p>We question whether the adjustment (50 bp) should vary from Member State to Member State to take account of different yields on Member States' sovereign bonds.</p> <p>Matching premium</p> <p>We are disappointed that the draft QIS specifications have been imported from Solvency II with minimal adjustment. In particular we are concerned at the limited circumstances in which a matching premium may be used and remain to be convinced that such restrictive conditions are necessary for IORPs.</p>	
38.	Pension Protection Fund, UK.	Q13.	<p>We understand that the specifications for the Matching Premium have been mapped across from Solvency II without many changes. Given the fundamental differences between IORPs and insurance companies, we suggest that further thinking is required as to how and matching Premium, if applied, would operate for IORPs.</p>	<p>Noted.</p> <p>Aim is to test matching adjustment as well as its conditions</p>
39.	Punter Southall	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so-called matching premium (Section</p>	<p>Noted.</p> <p>Aim is to test matching adjustment as well as</p>

			<p>2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>We believe that the restrictions in place mean that most UK IORPs will not be able to adopt the so-called matching premium.</p>	its conditions
40.	Railways Pension Trustee Company Limited (RPTCL)	Q13.	<p>RPTCL believes that EIOPA should consider all options for taking into account the long-term nature of pension liabilities within the interest rate adopted for technical provisions.</p> <p>As it stands, the UK's Occupational Pension Schemes (Scheme Funding) Regulations 2005 requires that the rates of interest used to discount future payments of benefits must be chosen prudently, taking into account either or both of: (i) the yield on assets held by the scheme to fund future benefits and the anticipated future investment returns; and (ii) the market redemption yields on government or other high-quality bonds. This approach generally works well and seems a preferable approach to specifying a particular approach based on risk-free interest rates.</p>	Noted.
43.	Towers Watson B.V.	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under conditions – to apply the so- called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long_term nature of pension liabilities?</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

			<p>We would argue for an approach that takes movements in interest rate markets into account. An approach that doesn't do this would limit the efficiency of interest rate hedges and could therefore be an incentive for risk management behavior that is suboptimal. It has been argued that this is even the case for the currently proposed design of the Ultimate Forward Rate, which creates unhedgeable basis risks.</p>	<p>Aim is to test matching adjustment for hedged liabilities</p>
44.	Towers Watson GmbH, Germany	Q13.	<p>We consider that EIOPA should consider all the options for taking into account the long-term nature of pension liabilities.</p> <p>Our immediate observations are:</p> <p>Counter-cyclical premium</p> <p>The proposal/option seems to suggest a uniform adjustment (50bp) across all Member States. We wonder whether this should not vary from Member State to Member State to take account of different yields on Member States' sovereign bonds.</p> <p>Matching premium</p> <p>We are disappointed that the draft QIS specifications have been imported from Solvency II with minimal adjustment. In particular we are concerned at the limited circumstances in which a matching premium may be used and doubt that such restrictive conditions are appropriate for IORPs.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based outcome, which may differ across currencies</p> <p>Aim is to test matching adjustment as well as its conditions</p>
45.	Towers Watson UK	Q13.	<p>The draft technical specifications propose performing an upward shift in the basic risk-free interest rate curve to approximate the so-called counter cyclical premium or to allow IORPs – under</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an</p>

			<p>conditions – to apply the so- called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>We consider that EIOPA should assess all the options for taking into account the long-term nature of pension liabilities. We would be happy to work with EIOPA to identify these but more time will be required than the consultation allows.</p> <p>However, our immediate observations are:</p> <p>Counter-cyclical premium</p> <p>The proposal/option seems to suggest a uniform adjustment (50bp) across all Member States. We wonder whether this should vary from Member State to Member State to take account of different yields on Member States’ sovereign bonds.</p> <p>Matching premium</p> <p>We are disappointed that the draft QIS specifications have been imported from Solvency II with minimal adjustment. We note from paragraph I.5.6 that EIOPA will update them as Solvency II evolves but our particular concern is that the circumstances in which a matching premium may be used will be more onerous for IORPs to meet than insurers, so that a level playing field will not be created..</p>	<p>approximation of formula based outcome, which may differ across currencies</p> <p>Aim is to test matching adjustment as well as its conditions</p>
46.	Universities Superannuation Scheme Limited	Q13.	<p>The draft technical specifications propose performing an upward shift in the</p> <p>basic risk-free interest rate curve to approximate the so-called counter</p> <p>cyclical premium or to allow IORPs – under conditions – to apply the so-</p>	<p>Noted.</p> <p>Level B measure will be tested as well</p>

			<p>called matching premium (Section 2.8). Do stakeholders agree with this approach to take into account the long-term nature of pension liabilities?</p> <p>We would prefer the adoption of the 'level B' assessment of liabilities, so that the principal measure used in the Holistic Balance Sheet would be based on expected rate of return on assets. This would follow the methodology adopted by the UK's supervisor.</p> <p>We are concerned that the Holistic Balance Sheet calculations will be based on one day's figure for swap/bid rates. We note that the regulatory authorities in the Netherlands are about to move to using figures smoothed over a period, which reduces the risk of the Holistic Balance Sheet being based on figures that represent a 'spike' rather than the overall market situation, and we would support this approach (and indeed this is something that is also being considered in the US).</p>	
47.	UVB Vereinigung der Unternehmensverbände in Berlin	Q13.	We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p>

			<p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	<p>Aim is to test matching adjustment as well as its conditions</p>
48.	<p>vbw – Vereinigung der Bayerischen Wirtschaft e. V.</p>	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>

			realistic alternative for IORPs in Germany.	
49.	Vereinigung der hessischen Unternehmerverbände (Vh)	Q13.	<p>We endorse any counter cyclical measures in specifying solvency standards. These would be achieved by using valuation assumptions that are based on long-term equilibrium values and not short-term market rates. Shifting the yield curve by 50 bps is arbitrary, will have little impact and does not adequately take into account the long-term nature of pension liabilities.</p> <p>The matching premium methodology raises a number of issues with regard to intergenerational equity and could possibly be illegal in many instances in Germany. Firstly, if assets/liabilities are separated without any possibility of transfer (e.g. in respect of pensioners) and obligations do not give rise to future premiums, who makes up the shortfall if an asset defaults? Is it justifiable that actives can enjoy benefit increases (due to investments in real assets) whereas pensioners can't (due to matched fixed income investment)? Because of these questions, we do not consider the matching premium methodology a realistic alternative for IORPs in Germany.</p>	<p>Noted.</p> <p>100 bps CCP included that serves as an approximation of formula based approach</p> <p>Aim is to test matching adjustment as well as its conditions</p>
50.	Zusatzversorgungskasse des Baugewerbes AG	Q13.	<p>In general ZVK-Bau regards the market-consistent approach as inappropriate for IORPs. In the time buckets beyond 15 years the financial markets are not deep enough to provide reliable data. At the moment markets are heavily distorted due to the financial crisis and the political interventions to solve this crisis. Urging IORPs to comply with a supervisory regime that is based on market valuation pushes IORPs to close a duration gap</p>	<p>Noted.</p>

			<p>situation which would lead to the risk of distorting the markets even further.</p> <p>If COM or EIOPA want to push forward this concept the only possibility to evaluate the pensions liabilities in a nearly adequate way is to apply adequate counter cyclical or matching premiums together with an UFR of 4,5 % to be valid after 20 years.</p>	
51.	OPSG	Q14.	<p>The OPSG strongly welcomes the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but it is questionable if the level B discount rate should be derived from bond rates at current levels.</p> <p>A better approximation for the bond yield could be derived from the long-term historical average of the strategic bond mix described in HBS 8.17 (page 58). An alternative to discounting non-fixed income assets might be to build a model on the sum of historic real economic growth rates (g), historic rates of inflation (f) and historical non-fixed income yields (y) – dividends etc. If <math>g = 2.5\%</math>, <math>f = 2.5\%</math>, <math>y = 3\%</math>, then the product is 8%. This might be a more realistic expectation for the long-term return on non-fixed income assets. Of course both long-term averages and the factor model imply that bond yields will rise, creating losses on the fixed income component of portfolios and liability hedges.</p> <p>Furthermore, the fixed risk premium of 3% for all other kind of</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off creating distortions, such as a strong incentive to invest in property (same expected return, but lower capital requirements than equity).	
52.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q14.	<p>The level B discount rate seems to be a more appropriate rate to discount liabilities and should represent the base case. It's derivation, however, needs adjustment. The fixed income asset classes listed in HBS 8.18 are not representative of the asset allocation of German IORPs which have significant investments in covered bonds and registered bank bonds that may be rated lower than AA. In addition, many IORPs have significant issuance of mortgage loans to members which are not covered in HBS 8.18. Basing the fixed income portion of the level B discount rate on AAA and AA rated securities is unreasonable given the lack of depth of this market.</p> <p>Importantly, the level B discount rate should represent a long-term equilibrium return on the IORPs assets and not be based on today's yield levels. The fixed income yield should reflect a long-term historical average and the duration of liabilities.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
53.	AEIP – The European Association of Paritarian Inst	Q14.	<p>Although in general AEIP regards the market-consistent approach as inappropriate for IORPs we welcome the possibility for IORPs to calculate Level B technical provision based on the expected return of strategic asset allocation if it comes to this kind of regulation.</p> <p>However, we find the way to derive the Level B discount rate</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further

			<p>faulty.</p> <p>The assets used to match the duration of the liabilities should not necessarily consist of fixed income but property and real estate should be allowed too to offset any existing duration gap between assets and liabilities.</p> <p>Finally, we would like EIOPA to clarify the use of Level B technical provision within the proposed Holistic Balance Sheet since only Level A TP are needed to calculate the risk margin and the SCR module.</p>	<p>analysis.</p>
56.	Aon Hewitt	Q14.	<p>It is not clear how, if at all, IORPs take account of any planned changes to investment strategy in the future (eg strategies or stated policies where the proportion invested in fixed-income will increase over time, as part of de-risking activities).</p> <p>For a best estimate, we would suggest that the proposed assumption for non-fixed income investments is too low under current financial conditions. In addition, building a best estimate return for equities from the underlying bond yield is an outdated approach which does not work in the current environment, when bond yields are artificially depressed.</p> <p>It is not clear whether non fixed income assets should be 3% above the yield for AAA government bonds (so will vary by</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

		<p>country) or should be 5.98% in all countries. We assume it should be country specific?</p> <p>We think a more appropriate best estimate equity risk premium should be in the region of 4% to 5% (with a higher premium in the UK to allow for end 2011 valuation levels of equities in the UK relative to the Euro-zone). Different risk premiums should also be considered for other asset classes eg property, infrastructure, and private equity.</p> <p>The yields listed in (a) to (d) of the Level B discount rate section may not be appropriate if the duration or components of the underlying indices are different from those of the fixed-income assets of the IORP. It may be better to state that IORPs can set bond yields based on the actual bonds held by the IORP. IORPs are used to following this type of approach for IAS19 accounting and funding purposes.</p> <p>Any remaining part of the fixed income portfolio should have a yield based on the actual portfolio – it may not be appropriate to assume the yield equals the average yield of the rest of the portfolio.</p> <p>The assumed return for corporate bonds ought to allow for default risk (ie the expected return will be less than the underlying yield on these bonds given the risk of default)</p>	
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			The level B discount rate should be calculated using a method consistent with the expected return on assets used for IAS19 and US GAAP. This should produce a 'neutral estimate' of the funding target – a target equally likely to under or overstate the level of assets like to be required to meet liabilities.	
57.	Association of British Insurers	Q14.	The ABI finds it difficult to comment on the Level B discount rate without understanding how this will be used in practice.	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now.
58.	Association of Consulting Actuaries UK	Q14.	<p>For UK IORPs we suggest using equivalent UK bond data (rather than using Eurozone bond data and adjusting for exchange rates) where the IORPs invest in UK or GBP denominated bonds.</p> <p>Average risk premium of 3% for all non-fixed income assets seems arbitrary and will not reflect the actual investment strategies of the IORPs. The approach also does not appear to allow for de-risking strategies that some schemes have adopted, for example through the use of interest rate, inflation and / or longevity swaps, and designed to reduce the level of mis-match between the assets and the liabilities and thus the risk exposure of the plan.</p> <p>In relation to the risk premium, as regards equities, we note the Credit Suisse Global Investment Returns Sourcebook shows that over the period 1900-2011 the average world equity risk premium was 4.4%. Further, in research carried out by the Research Foundation of the CFA Institute, in December 2011, estimates of the equity risk premium is around the 4% mark.</p>	Partly agreed. The yields for other currencies were included. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

59.	Association of French Insurers (FFSA)	Q14.	<p>EIOPA is proposing the introduction of two different levels of best estimate as an option. The level A would be determined according to the principles of Solvency II (swap rates) whereas the second level B would be calculated according to the expected return of assets of the IORP. It would breach the basic valuation principle of market consistency.</p> <p>The level B could appear as an alternative to the level A and it is unclear how level B would be used. In its latest response to the Call for Advice of the Commission (February 2012), EIOPA was proposing that the gap between the valuation of level A and level B could be covered by sponsor support. This consideration appears too restrictive and market specific. FFSA might support the introduction of a non risk free interest rate as it could ease the artificial volatility of solvency ratios and avoid pro-cyclical effects, as long as a level playing field for all participants across Europe is emphasized. It might encourage occupational pension providers to keep a long term investment strategy that contributes to financial stability and supports growth in the real economy through for example infrastructure investment and investment in long dated sovereign bonds.</p> <p>Of course that proposal should be considered on a prudential basis and EIOPA would have to make sure that the prudential regime would not encourage stakeholders to take excessive risks.</p>	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now.
60.	Balfour Beatty plc	Q14.	Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that

			<p>We commend the principle of including this approach for determining the discount rate. Indeed ,we would very much like to see this approach developed so that it can become the primary method for determining the technical provisions. By doing so, IORPs will be encouraged to continue to develop a more diversified investment strategy, thereby reducing systemic risk in investment markets. We consider that IORPs are well placed to be able to invest in assets that support economic growth, business investment and jobs (including infra-structure projects and European 'project bonds').</p> <p>We would suggest that the proposed approach to derive the level B discount rates should be refined to take account of the range of investment strategies available to IORPs. .</p>	<p>the level B discount rate needs further analysis.</p>
61.	Barnett Waddingham LLP	Q14.	<p>We are unsure what purpose the Level B technical provisions will serve, and as such it is difficult to comment on an appropriate treatment. We do however believe that the assumed growth rate on equity-like investments should be revised upwards, and that special account needs to be taken of alternative forms of investment such as target return funds or with-profit funds.</p>	<p>Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now.</p>
62.	BASF SE	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We endorse EIOPA's proposal to value pension liabilities using a "Level B" discount rate based on the expected return.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount</p>

			<p>However, we have some concerns regarding the way to derive the level B discount rate for fixed income investments. The yield for fixed income investments consists of an average yield of government bonds, corporate bonds and bonds issued by banks. Other fixed-income investments are not considered. In Germany many IORPs have significant investments in covered bonds that have to be included when deriving a level B discount rate.</p>	<p>rate needs further analysis.</p>
63.	Bayer AG	Q14.	<p>No, we think, it is in general problematic to use data derived from one special reference date, since this might not be representative for the future development. Perhaps it would be better to use longer term averages.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
64.	Bayerischer Industrieverband Steine und Erden e.V.	Q14.	<p>We strongly welcome the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			return, but lower capital requirements than equity).	
65.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q14.	We strongly welcome the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected return, but lower capital requirements than equity).	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
66.	BdS – Bundesverband der Systemgastronomie e.V.	Q14.	We strongly welcome the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

			and a strong incentive to invest in property (same expected return, but lower capital requirements than equity).	
67.	Belgian Association of Pension Institutions (BVPI-	Q14.	<p>No.</p> <p>We welcome the level B approach, but nevertheless it feels strange that the 3% risk premium is fixed and not linked to the specific type of non-fixed income asset. Therefore we would like to invite EIOPA to further elaborate this section.</p> <p>We would prefer to get level B, the expected return on assets, as the default approach.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
68.	BlackRock	Q14.	Please see our General Comment above.	Noted.
69.	Bosch Pensionsfonds AG	Q14.	<p>We strongly welcome the proposal that there will also be a level B discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate. However, we don't agree with the proposed way to derive this level B discount rate. Instead of locking in bond rates at current levels, we propose a long-term historical average of returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities.</p> <p>Furthermore, using a fixed risk premium of 3% for all non-fixed income assets is not appropriate. A more realistic approach should be used that also takes into account the different levels of riskiness of these assets.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

70.	Bosch-Group	Q14.	<p>We strongly welcome the proposal that there will also be a level B discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate. However, we don't agree with the proposed way to derive this level B discount rate. Instead of locking in bond rates at current levels, we propose a long-term historical average of returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities.</p> <p>Furthermore, using a fixed risk premium of 3% for all non-fixed income assets is not appropriate. A more realistic approach should be used that also takes into account the different levels of riskiness of these assets.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
71.	BT Group plc	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>It is impossible to comment fully without understanding how this measure of liabilities will be used within the HBS.</p> <p>However, we firmly believe that pension liability measures used for funding need to recognise the different returns on asset classes held. The approach to setting the Level B discount rate is a much more viable approach (with further development to allow for more scheme-specific features) than that used for Level A.</p>	<p>Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			<p>Adopting a target based on the Level A discount rate would have a significant economic impact as companies would need to divert their cash away from investing in growth and job creation.</p> <p>There are other likely knock-on impacts of using a Level A discount rate. These include the increased likelihood of IORPs diverting more capital to "risk-free" assets reducing that available for areas such as infrastructure or equity investment, which would likely restrict the growth and prosperity of the European economy (jeopardising the European Commission's 'Europe 2020' targets on job creation and investment in growth).</p>	
72.	BTPS Management Ltd	Q14.	<p>We strongly welcome the inclusion of this approach as an alternative to risk free rates and would argue that this method should be used as the primary method for calculating technical provisions. We believe that this approach would significantly reduce the stress to IORPs and their sponsors. It would also have the significant benefit that IORPs will be encouraged to maintain coherent and appropriate diversified investment strategies, thereby reducing systemic risk in investment markets through crowding into certain asset classes. This would reduce one significant risk of the overall proposals: that the level of capital available to invest in the growth and prosperity of the European economy would be significantly reduced (jeopardising the European Commission's 'Europe 2020' targets</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			<p>on job creation and investment in growth).</p> <p>We note that this proposed method is inflexible and it could be significantly improved through allowing a more scheme-specific calculation. At the least we believe that the proposed approach for deriving level B discount rates should be refined to encompass appropriately the full range of investment strategies available to and used by IORPs, taking account both of other asset classes and the benefits of diversification. The assumption that “other investments is to be a considered non-fixed income” is very restrictive and will lead to significant changes in asset allocations away from low risk, cashflow matching investments such as infrastructure investment which growth in the European economy requires.</p> <p>The simplification of bond yields focussing mostly on European bonds fails to reflect the reality of IORP investment as most pension schemes have significantly larger holdings of US government and US corporate bonds, not to mention the increasing exposures to emerging market debt. The assumption of a 3% return for all other investments seems a huge simplification; UK pension schemes currently follow a similar calculation to estimate expected returns but with significantly more rigour and accuracy. We note the significant gap of there being no suggested expected return for inflation-linked bonds which are a major allocation for most IORPs, certainly in the UK, and perhaps elsewhere in Europe.</p>	
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			When considering the two approaches, we believe that the technical, rigid market-led approach upon which the EIOPA (and ultimately Commission) proposal is founded is an unsuitable measure of a pension scheme liabilities – which are ultimately of a long term nature. This approach will also lead to increased and potentially very significant systemic risks.	
73.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q14.	<p>About the proposed way to derive the level B discount rate:</p> <p>The underlying concept of the methodology for the “Level B” can be considered adequate because the solution proposed seems to replicate the theoretically IORP’s assets portfolio, but in practice the simplified strategic asset mix doesn’t reflect the assets hold by the IORP, in particular doesn’t consider property and the future trade-off of assets mix.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
74.	Deloitte Total Reward and Benefits Limited (UK)	Q14.	<p>No.</p> <p>The ultimate purpose of the Level B liability calculation is unclear. Is this an additional component to be considered outside of the balance sheet? Is this component an alternative to Level A liabilities within the holistic balance sheet?</p> <p>Given the wide range of assets in which IORPs across the EU invest, we consider the categories of asset proposed are too broad to accurately reflect the diversity of asset characteristics. Again, we believe the timescale for review should be extended to allow all stakeholders (including EIOPA) to assess alternative options.</p>	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

75.	Deutsche Post DHL	Q14.	Yes, a level B discount rate in the QIS, based on expected returns of the strategic asset allocation, is more appropriate rather than a "risk-free" discount rate. However, we don't agree with the proposed way to derive this level B discount rate. Instead of locking in bond rates at current levels, we propose a more long-term approach.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
76.	Dexia Asset Management	Q14.	<p>Q14. Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We lack information on the use of Level B TP. In any case, we suggest making a difference of expected returns according to the perceived riskiness of each asset class.</p>	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
77.	European Association of Public Sector Pension Inst	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>EAPSPI in general welcomes the notion of Article 15 (4) lit. b) of the IORP Directive 2003/41/EC in the level B discount rate and</p>	Noted.

			<p>the reference to the expected long term return on IORPs' assets ("the yield on the corresponding assets held by the institution and the future investment returns and/or the market yields of high-quality or government bonds"). In contrast to the intended unification of the calculation of the level B discount rate, EAPSPI is of the opinion that the hitherto reference to the rules of the home member state should be maintained ("the maximum rates of interest used shall be chosen prudently and determined in accordance with any relevant rules of the home Member State").</p> <p>EAPSPI disapproves of using the basic risk-free Level A-interest rate. The current low interest rate environment of swap rates generates uniquely high technical provisions while at the same time the very existence of a "risk-free" asset and interest rate is questionable in the light of current debates concerning i.e. the government bond markets of Euro countries and the volatility of financial markets. EAPSPI suggests only referring to the notion of long term expected returns of IORPs assets and not referring to short term fluctuations in yield levels.</p>	
78.	European Federation for Retirement Provision (EFRP)	Q14.	<p>Q14. Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>The use of the Level B discount rate is not very clear yet and further clarification is needed. In the consultation document</p>	<p>Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to</p>

		<p>there is no attention paid to how the level B discount rate will operate in connection with other adjustment mechanisms. A higher discount rate will automatically influence the value of the adjustment and/or steering instruments.</p> <p>Some Members of the EFRP argue that the level B discount rate is better suitable to the structure of their liabilities than the level A discount rate and would like to propose to use the Level B discount rate as starting basis discount rate.</p> <p>The calculation of the 'Level B' discount rate should be based on the real asset mix and expected rate of return of each asset class on the portfolio. Regarding the fixed income component: since it includes bonds and deposits, including only the yields of AAA and AA bonds eliminates other components that can have higher rates. Furthermore, we note that the 3% risk premium is fixed for all risk-bearing asset categories and not linked to the specific risk as determined by the asset allocation of the IORP. A rate in line with the IORPs asset allocation would be more appropriate. The level B discount rate should also reflect a long-term equilibrium return on the IORPs assets and not be based on today's yield levels. It should use an average long-term risk-free interest rate. Of course, using an average risk-free interest rate that is higher than the current interest rates will create losses on the fixed income component of portfolios.</p> <p>In addition, there are some Member State specific issues. For example, German IORPs have significant investments in</p>	<p>stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
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			covered bonds (e.g. Pfandbriefe) which are not listed in HBS 8.18. The classification of such bonds would need to be clarified, among other things.	
79.	Federation of the Dutch Pension Funds	Q14.	<p>The use of the Level B discount rate is not yet very clear and may not be realistic in case the options IORPs have and can use (such as adjustment and steering mechanisms) are being taken into account. Therefore, at the moment, we cannot provide a proper analysis. As long as the current proposed method is only a first insight into the magnitude of the deviation of a Level A versus Level B technical provision and not for any parameter setting discussion, we can agree with the proposed way.</p> <p>The fixed equity premium of 3% for all other kind of assets (e.g. property, equities and alternative investments) does not correspond with the different levels of risk of these assets as described in the SCR standard formula, making some asset classes looking more attractive from the perspective of the HBS (in terms of return/risk). We would like to stress the danger of new quantitative requirements leading to a shift in the investment policy of an IORP and the broad macro-economic impact that may be undesirable in view of the EU strategy for growth and the role of long term investors such as IORPs. Such shifts in investment strategy have already occurred in insurance companies due to the calibration of Solvency II.</p> <p>As soon as EIOPA intends to work towards more detailed parameter setting or usage of the Level B discount rate, we</p>	<p>Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			<p>preserve ourselves the right to backtrack on any comment made on the Level B discount rate.</p> <p>A sensitivity analysis would be helpful.</p>	
80.	Financial Reporting Council – staff response	Q14.	<p>For the purposes of the QIS, the methodology to derive the level B discount rate might be an appropriate simplification.</p> <p>However EIOPA should note that the proposed approach would appear to be based on the existing investment strategy of an IORP and does not take account of possible changes to investment strategy which might occur as the IORP becomes more mature.</p> <p>We suggest EIOPA consider refining the approach, for example the discount rate might be term-related.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
81.	German Institute of Pension Actuaries	Q14.	<p>In principle, the suggested approach for determining 'Level B' discount rates is a step in the right direction (cf. Q13). Actually, we are convinced that the use of a 'Level B' type of discounts rate is an absolute must if the HBS is pursued. However, the clustering in the suggested asset classes seems to be too rough to capture the return characteristics of typical German IORP portfolios. Also, given the restrictions in the depth of the market, IORPs often have to invest to a certain extent in single A rated bonds issued by corporates or financials since there are not enough AA or AAA investment opportunities. The assumption made in HBS.8.18 that the remaining part of the fixed income portfolio is assumed to have the same average yield as the supposed fixed income asset classes thus fails to capture reality. (see also our comment in "General" as to depth</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

			<p>and efficiency of capital markets)</p> <p>Supposing a 3% risk premium for the whole bundle of non-fixed income assets from historical evidence appears to be too low, especially when added to historically abnormal fixed-income interest rates. At the least, a premium of 3.5% to 4.0% would be recommended. When doing so real estate investment should be segregated and could be accounted for with the suggested risk premium of 3%.</p> <p>As mentioned above, we believe that, given the long-term nature of pension liabilities, the nominal rates used should not be predominantly influenced by the current interest rates' level but rather by expected long-term equilibrium conditions. The fixed income yield should therefore reflect a long-term historical average and the duration of liabilities.</p>	
82.	GESAMTMETALL - Federation of German employer	Q14.	<p>We strongly welcome the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected return, but lower capital requirements than equity).</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

83.	Groupe Consultatif Actuariel Européen	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)?</p> <p>If not, what alternative would you propose?</p> <p>EIOPA has made it clear that the parameters proposed for the purpose of this QIS for determining the Level B discount rate are to provide a first insight into the magnitude of the deviation of Level A versus Level B technical provisions . For this purpose, we think that the proposed simplification of grouping assets in a limited number of categories is acceptable. If a dual-level approach is to be used within a new regime, the approach to deriving the discount rate will need to be reviewed.</p>	Noted.
84.	Hundred Group of Finance Directors	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>As noted above, as the consultation does not indicate what the level B discount rate is to be used for, it is difficult to respond effectively.</p>	Noted. The potential use of the level B best estimate of technical provisions is explained in the technical specifications now. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the

			<p>However, we note that there appears to be an odd mixture of spurious accuracy and arbitrariness – for example 2.98% is used for the return on AAA government bonds and then a simple 3% addition is used as an equity risk premium without any justification for this figure.</p> <p>We also question whether the calculation of the expected return on assets will give adequate weight to derisking or hedging strategies.</p>	<p>level B discount rate needs further analysis.</p>
85.	IBM Deutschland Pensionsfonds AG	Q14.	<p>The level B discount rate seems to be a more appropriate rate to discount liabilities and should represent the base case. Its derivation, however, needs adjustment. The fixed income asset classes listed in HBS 8.18 are not representative of the asset allocation of German IORPs which have significant investments in covered bonds and registered bank bonds that may be rated lower than AA. In addition, many IORPs have significant issuance of mortgage loans to members which are not covered in HBS 8.18. Basing the fixed income portion of the level B discount rate on AAA and AA rated securities is unreasonable given the lack of depth of this market.</p> <p>Importantly, the level B discount rate should represent a long-term equilibrium return on the IORPs assets and not be based on today's yield levels. The fixed income yield should reflect a long-term historical average and the duration of liabilities.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

86.	Institute and Faculty of Actuaries	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We are concerned that the proposed way to derive the level B discount rates may not be sufficiently sophisticated to address the investment strategies of some IORPs and that as a result the QIS calculations may substantially misstate the results. We consider that it would be much better to specify that the approach already followed for the sponsor's pensions accounting disclosures should be adopted.</p> <p>We note that the proposals seem designed to favour investment in equities and other risky assets.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
87.	Insurance Europe	Q14.	<p>Insurance Europe believes that the proposed way to derive a level B discount rate is not suitable to calculate an appropriate value for the technical provisions. It would be contrary to the basic valuation principles mentioned in section 2.3 and in EIOPA's answer to the Call for Advice. Especially, the principle of a market-consistent valuation is not fulfilled.</p> <p>Insurance Europe believes that alternatives to the market consistent valuation should be discussed and developed within the Solvency II framework. Insurers providing long-term guarantees face the same difficulties as IORPs.</p>	Noted.
88.	KPMG LLP (UK)	Q14.	No. It is far too simplistic to assume that all non-fixed-income investments will return the same risk premium. If Level B is meant to equate to the present prudent principle regime under the current IORP Directive, then the same wordings should be	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach

			used, to allow schemes to determine technical provisions on a suitable basis.	while recognising that the level B discount rate needs further analysis.
89.	Mercer Ltd	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We are pleased that the 'Level B' measure of technical provisions is reflected in the QIS. However, although we would like to see less complexity elsewhere, the approach adopted here is very simplistic and unlikely to reflect the variety of investment strategies adopted by IORPs, or the different returns available from different investment products in different member states.</p> <p>If it genuinely is the case that no decisions have been made regarding the application of the quantitative measures of Solvency II to IORPs, then we do not understand why such little regard has been given to the measurement of level B technical provisions, compared to level A. In particular, rather than imposing an arbitrary 'investment related' discount rate, it would seem more appropriate for the Level B measure to be set using the existing principles and rules that apply in each member state. These are likely to have been set in the context of the market, social and economic conditions that apply in each member state and such an approach would ensure that local knowledge and experience in each member state is developed</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

			appropriately, rather than lost. In particular, it seems unlikely to us that IORPs or local regulators would concede to a funding level that was based on weaker principles than those that applied currently.	
90.	National Association of Pension Funds (NAPF)	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflects the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>Further clarity is required over how the Level B discount rate will operate and refinement is needed to take account of the range of investment strategies available to IORPs.</p> <p>The NAPF is concerned that the current proposals would lock in returns on government bonds at current levels, which could easily prove inappropriate over the long term.</p> <p>Paras HBS 8.18-8.21 set out values to be used for the return on a range of assets. It is highly unlikely that these will be appropriate for all the economies in the EU, and the NAPF would propose separate assumptions for individual Member States – or at least for those outside the Eurozone.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

91.	Pensions-Sicherungs-Verein VVaG	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>In our view, technical provisions of IORPs protected by a pension protection institution can be calculated with the level B discount rate. If the IORP is protected by the PPS, it would need only assets equal to the amount of the provision.</p>	Noted.
92.	Punter Southall	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflects the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We would encourage the use of more relevant proposals including the use of country-specific bond data and greater consideration to the equity risk premium. The current proposal of 3% simple seems arbitrary.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
93.	Railways Pension Trustee Company Limited (RPTCL)	Q14.	RPTCL agrees with the approach set out and would like to see this approach developed further so that it can become the main method for determining the technical provisions, in the event that any revised IORP Directive covers changes to valuation and capital requirements.	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that

			<p>RPTCL believes a 'level B' approach would assist and encourage IORPs to develop diversified investment strategies which can support economic growth, business investment and jobs within the EU .</p> <p>By contrast, we consider that a 'level A' approach is likely to discourage employers from providing supplementary (Pillar II) occupational pension arrangements on anything other than a defined contribution basis. Consequently, there may be greater reliance placed on Member States' Pillar I arrangements.</p>	the level B discount rate needs further analysis.
94.	RWE Pensionsfonds AG	Q14.	For this QIS the expected return can be calculated as suggested. A final regulation should leave this definition more open, may be referring to the agreement with the actuary. The reason is the numerous possibilities to define asset classes.	Noted.
97.	Tesco Plc	Q14.	We welcome the principle of including the Level B discount rate, and believe more time should be given to explore and understand how this will be used in the HBS.	Noted.
98.	Towers Watson B.V.	Q14.	Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?	Noted.

			<p>We appreciate that based on macro-economic considerations, there may be arguments to prefer the level B approach over the level A approach. Other than in other legislations, if the level B approach would come to apply for benefits accrued under Dutch legislation, this would lead to sizeable redistributions.</p>	
99.	Towers Watson GmbH, Germany	Q14.	<p>We very much approve of including this approach for determining the discount rate. Indeed ,we would very much like to see this approach developed so that it can become the primary method for determining the technical provisions. By doing so, IORPs will be encouraged to continue to develop a more diversified investment strategy, thereby reducing systemic risk in investment markets. We consider that IORPs are well placed to be able to invest in assets that support economic growth, business investment and jobs (including infra-structure projects and European `project bonds`), in line with the 2020 Growth Strategy .</p> <p>However, we suggest that the proposed approach to derive the level B discount rates should be refined to take account of the range of investment strategies available to IORPs.</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
100.	Towers Watson UK	Q14.	<p>Do stakeholders agree that the proposed way to derive the level B discount rate adequately reflect the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We commend the principle of including this approach for</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount</p>

			<p>determining the discount rate. Indeed we think this component of the technical specification is strangely short on detail relative to other sections and would very much like to see it developed so that it can become the primary method for determining the technical provisions. By doing so, IORPs will be encouraged to continue to develop a more diversified investment strategy, thereby reducing systemic risk in investment markets. We consider that IORPs are well placed to be able to invest in assets that support economic growth, business investment and jobs (including infra-structure projects and European 'project bonds'), in line with the 2020 Growth Strategy .</p> <p>We would suggest that the proposed approach to derive the level B discount rates should be refined to take account of the range of investment strategies available to IORPs.</p> <p>When considering these two aspects, we believe that the technical, market-consistent approach upon which the EIOPA (and ultimately Commission) proposals are founded, are anti-growth, anti-investment and anti-jobs. The interaction of the calculation of sponsor support and the SCR will militate in favour of investment in sovereign debt rather than the growth-fuelling asset classes such as equities and infrastructure. We consider that this would be undesirable, increasing systemic risk. Moreover, it discourages employers from providing supplementary (Pillar II) occupational pension arrangements that are anything other than 'pure DC'. This, in turn, places greater reliance on Member States' Pillar I arrangements, which are already recognised as placing an unacceptable burden on national budgets.</p>	rate needs further analysis.
101.	Universities Superannuation Scheme	Q14.	Do stakeholders agree that the proposed way to derive the level B discount	Noted. For the purpose of this QIS EIOPA

	Limited		<p>rate adequately reflects the expected return on assets of IORPs (Section 2.8)? If not, what alternative would you propose?</p> <p>We are concerned that the current proposals would lock in returns on government bonds at current levels, which could easily prove inappropriate over the long term.</p> <p>In HBS.8.19 the proposal for the risk premium on non-fixed income assets is 3% above AAA government bonds, however we believe that it would be entirely justifiable to adopt a higher figure (ie 4%) based on long term returns from these asset classes.</p>	<p>proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>
102.	UVB Vereinigung der Unternehmensverbände in Berlin	Q14.	<p>We strongly welcome the proposal that there will also be a "Level B" discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected return, but lower capital requirements than equity).</p>	<p>Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.</p>

103.	vbw – Vereinigung der Bayerischen Wirtschaft e. V.	Q14.	We strongly welcome the proposal that there will also be a “Level B” discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected return, but lower capital requirements than equity).	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
104.	Vereinigung der hessischen Unternehmervverbände (Vh)	Q14.	We strongly welcome the proposal that there will also be a “Level B” discount rate in the QIS, based on expected returns of the strategic asset allocation rather than a risk-free discount rate, but do not agree with the proposed way to derive the level B discount rate. The level B expected return locks in bond rates at current levels. We propose a long-term historical average of the returns instead, based on bonds with a maturity of at least 15 years, to adequately reflect the duration of pension liabilities. Furthermore, the fixed risk premium of 3% for all other kind of assets does not correspond with the different level of riskiness of these assets (as prescribed in the SCR standard formula). So, there will be an imbalance in risk-return trade-off and a strong incentive to invest in property (same expected	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.

			return, but lower capital requirements than equity).	
105.	Zusatzversorgungskasse des Baugewerbes AG	Q14.	<p>Although in general ZVK-Bau regards the market-consistent approach as inappropriate for IORPs we offer an opinion about Level A versus Level B technical provisions: to give IORPs the possibility to calculate Level B technical provision based on the expected return of the strategic asset allocation seems reasonable if it comes to this kind of regulation.</p> <p>However, we find the way to derive the Level B discount rate faulty and would suggest to adopt a methodology that would allow IORPs to derive a Level B discount rate with assets that match the duration of the liabilities. These assets should not necessarily consist of fixed income only but property and real estate should be allowed too to offset any existing duration gap between assets and liabilities.</p>	Noted. For the purpose of this QIS EIOPA proposes to stick to a simplified approach while recognising that the level B discount rate needs further analysis.
106.	OPSG	Q15.	<p>The OPSG does not agree with the draft technical specifications for expected annual inflation and salary growth, currently set respectively at 2% and 3%. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.</p> <p>The OPSG suggests applying break-even inflation assumptions implied by financial markets. These will lead to valuations consistent with financial markets – using 2% and 3% will not. If and when financial markets discount for rising inflation (they will be more responsive to actual events), these will be reflected in the HBS. Since there is no market for wage inflation, using break-even inflation for price inflation plus 1% could be</p>	<p>Agreed, fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module added</p>

			<p>suggested. A further study on the market impact of using break-even inflation assumptions will be required.</p> <p>In general, the OPSG would like to ask EIOPA to pay much more attention to inflation risk in the QIS given the importance of (wage) inflation for IORPs.</p>	
107.	aba Arbeitsgemeinschaft für betriebliche Altersver	Q15.	We believe that all assumptions should be based on long-term equilibrium values.	Noted.
108.	AEIP – The European Association of Paritarian Inst	Q15.	<p>No, AEIP does not agree with the proposed fixed values for the inflation rate and the salary growth.</p> <p>Although in general AEIP regards the market-consistent approach as inappropriate for IORPs we are surprised that such crucial elements for this exercise are proposed as fixed assumptions while all other elements are based on “market-consistent” values.</p> <p>However, AEIP believes that a fixed inflation rate provision might be accepted, but only if adapted to the actual economic situation for each Member State. We would refrain from using market rates as there is a high risk of distortion for inflation market.</p> <p>Regarding the fixed percentage proposed for salary growth, this seems to be not justifiable and does not reflect reality. We would thus prefer to give IORPs and Member States the</p>	<p>Noted.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>

			opportunity to apply real values.	
111.	Aon Hewitt	Q15.	<p>The outlook for inflation is likely to vary significantly between countries, and even between different measures of inflation within the same country. Setting a single rate across all countries is far too simplistic, particularly considering the huge complexities introduced elsewhere in the modelling. In practice inflation and salary growth expectations can vary significantly between countries and between economic scenarios under consideration. The assumptions should be market driven, based on observable market information on breakeven inflation expectations.</p> <p>Also, there are different levels of inflation within each country. For example, in the UK, there is inflation measured with reference to the Consumers Price Index and that measured with reference to the Retail Prices Index. In the UK, we think a more appropriate inflation assumption (for Retail Price Index inflation) would be just above 3% at end 2011. This would then be consistent with what UK companies used as a best estimate inflation assumption for IAS19 accounting disclosures at end 2011.</p> <p>We also note that another critical assumption is pension increases, and revaluation of accrued benefits. For cash balance plans, a critical assumption is the annual rate of increase to cash balance accounts. These increases are often linked to inflation but are not the same as inflation (eg in the UK, there are maximum limits for some type of pension</p>	<p>Partially agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>

			<p>increases). EIOPA should provide additional guidance on how to set assumptions for increases to benefits.</p> <p>For salary increases, we think there is a strong argument to only allow for this in Level B, and for the Level A technical provisions to be based on accrued benefits only (since, in the event of plan termination, the link to salary increases would cease).</p> <p>If the purpose of Level A is come up with an estimate of the value of accrued benefits, then it is important to note that, in many countries, accrued benefits are often regarded as those payable based on salary at the calculation date; plus any increases that are required to be given by statute/regulations/scheme rules between date of leaving and the date benefits commence. As such, a number of countries do not require accrued benefits to include an allowance for future salary increases. The issue of whether to include an allowance for salary increases is one that has been discussed at length by accounting standard setters for many years, and EIOPA should at least acknowledge that it has considered this in formulating its proposals (and if it hasn't we recommend this issue is explored in more detail).</p>	
112.	Association of British Insurers	Q15.	The assumptions used for inflation and salary increases seem arbitrary and unsuitable.	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-</p>

			<p>Using the same expected salary increases for the whole Eurozone does not seem to be appropriate or consistent in a prudent framework.</p> <p>Inflation and salary increases should be market-linked, nationally specified and account for the rules outlined for each IORP.</p>	<p>implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>
113.	Association of Consulting Actuaries UK	Q15.	<p>Again the use of fixed 2% and 3% assumptions appears entirely inappropriate.</p> <p>In particular, UK IORPs use two different inflation rates (CPI and RPI), calculated using different methods and components, that would need to be reflected. A single assumption of 2% pa does not meet this need. Separate inflation assumptions need to be set for the UK if a simplified approach is being adopted for the QIS.</p> <p>Similarly, as regards salary growth assumptions IORPs should be able, with expert advice, to select a more appropriate salary growth assumption for the actual membership of the IORP, as it is an assumption that will vary by plan and the nature of its membership (whether open for a cross-section of the workforce or a select subgroup, e.g. a plan for executives).</p> <p>IORPs should base their estimates of these critical assumptions on the underlying purpose of the valuation, using assumptions implied within the current market or long-term expectations as appropriate. You have asked for an explanation – it is simply that the expert, professional, regulated, judgement of an</p>	<p>Partially agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>

			<p>appropriately experienced and qualified individual or firm of advisors is far more likely to reflect the economic conditions faced by an IORP and the risks entailed, than the slavish following of a formulaic approach.</p> <p>Finally, there needs to be greater clarity as regards how salary increases should be considered within the calculation of Technical Provisions (i.e. to what extent is their impact to be considered conditional or discretionary).</p>	
114.	Balfour Beatty plc	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>The fixing of these variables is in stark contrast to the highly-detailed approach adopted in other areas of the specification in the name of achieving market consistency. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent way.</p> <p>We are also strongly of the view that salary growth should only be allowed for to the extent that future salary-linkage is guaranteed (and cannot be limited or terminated by the IORP or sponsor).</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>
115.	Barnett Waddingham LLP	Q15.	<p>We do not believe that specifying a fixed inflation rate and salary growth assumption is consistent with the idea of a market-consistent valuation. We are also unclear in what circumstances salary growth should be taken into account. In most cases in the UK, accrued benefits would not be considered</p>	<p>Partially agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p>

			<p>to include future salary inflation. Should this perhaps be included for the Level B technical provisions only, or not at all?</p> <p>Clarification is needed as to what the fixed inflation assumption represents (i.e. whether different assumptions should be made for non-HICP inflation indices), and sponsors of IORPs will be in the best position to judge a future salary growth assumption.</p>	<p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>
116.	BASF SE	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>We believe that the expected inflation rate should be derived by using long-term historical values. With regard to the salary growth we do not believe that it is appropriate to determine a standard rate. The salary growth must refer to the type and nature of the workplace.</p>	<p>Partially agreed.</p> <p>IORPs may apply real wage rate in line with their situation</p>
117.	Bayer AG	Q15.	No, see previous answers.	
118.	Bayerischer Industrieverband Steine	Q15.	We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the	<p>Agreed.</p> <p>Fixed inflation</p>

	und Erden e.V.		expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.	assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation
119.	BDA Bundesvereinigung der Deutschen Arbeitgeberver	Q15.	We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.	Agreed.  Fixed inflation assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation
120.	BdS – Bundesverband der Systemgastronomie e.V.	Q15.	We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.	Agreed.  Fixed inflation assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation

121.	Belgian Association of Pension Institutions (BVPI-	Q15.	<p>No.</p> <p>We believe the 1% salary increase above inflation is not appropriate for all IORPs. Why fixing it at 1%? Why not referring to real salary increases? We prefer the IORP to decide on the salary assumptions making use of objective justifications to underpin the decision.</p>	<p>Agreed.</p> <p>IORPs may apply real wage rate in line with their situation</p>
122.	BlackRock	Q15.	Please see our General Comment above.	
123.	BT Group plc	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>For the first QIS, it seems reasonable to include some simplifications and we believe that further simplification should be included throughout the QIS, which is then refined in later QISs.</p> <p>As noted earlier, current bond yields are currently at historic lows and market consistent measures are not currently likely to be appropriate given the long term nature of pension scheme investment.</p>	<p>Noted.</p>
124.	BTPS Management Ltd	Q15.	The use of fixed value non-market consistent assumptions for	<p>Agreed.</p>

		<p>inflation will potentially give rise to very significant issues of mismatches between the valuations of assets and liabilities which are in practice matched closely. For example in our case, the method suggests that our inflation-linked liabilities should be valued using this 2% assumption while our inflation-linked assets will be valued according to market valuations. It also makes the calculations complex as we face a prescribed curve for interest rates yet a flat inflation value.</p> <p>This issue is exacerbated for us and for other UK schemes, and possibly for IORPs in other European markets, because we face two different forms of inflation for different portions of our liabilities. We are obliged to apply both RPI and CPI to different liabilities and we wonder which of these should be deemed to be 2%, or whether it is both. The practical fact is that even were one of these measures of inflation 2% at any given point the other would not be. The potential for mismatching is thus greatly increased under what is deemed a simplification.</p> <p>Inflation is one of the largest risks that our pension scheme faces and to assume it is fixed at a non-market level results in all the numbers calculated under the QIS as being little more than meaningless.</p> <p>We are also of the view that including an assumption for salary growth should be an option reflecting the specific pension scheme circumstances, and particularly any agreement with the sponsor and the associated employment contract.</p>	<p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>
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125.	Consiglio Nazionale degli Attuari and Ordine Nazio	Q15.	<p>About the proposed fixed values for inflation rate and salary growth:</p> <p>We do not agree with the proposed fixed values for inflation rate and salary growth.</p> <p>We are surprised that such crucial elements for this exercise are proposed as fixed assumptions while for most of other elements are used "market- consistent" data.</p> <p>A fixed inflation rate provision might be accepted, but adapted to the actual economic situation for each Member State.</p> <p>Regarding the fixed percentage proposed for salary growth, we would thus give IORPs the opportunity to use real values.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>
126.	Deloitte Total Reward and Benefits Limited (UK)	Q15.	<p>Given the discount rate proposals are based on a mark to market approach, it would seem appropriate to adopt a mark to market approach for both the inflation and salary increase assumptions. It should also be noted by EIOPA that varying measures of inflation are used in the UK; some pensions increases in line with the Retail Prices Index and others in line with the Consumer Prices Index. The long-term differences between these indices are generally assumed to be material. Further, pension increases can often be subject to caps and floors and the impact of these should be incorporated into the calculations, where possible.</p> <p>We believe the timescale for review should be extended to allow all stakeholders (including EIOPA) to assess alternative options.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>

127.	Deutsche Post DHL	Q15.	No, the selection of the inflation assumption should be consistent to the selection of other valuation assumptions, i.e. should be based on a more long-term view.	Noted.
128.	Dexia Asset Management	Q15.	<p>Q15. Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>We agree with the use of a fixed (2%) inflation. In the euro zone, inflation implied by financial markets is the euro zone average inflation while the pension cash-flows are sensitive to the inflation in the country where the IORP operates. Even if a fixed rate is not always satisfactory, implied inflation would not add much information. Moreover, in some countries the inflation market is not deep enough to hedge the indexed pension liabilities. Regulation should not sharpen supply and demand mismatch.</p>	Noted.
129.	European Association of Public Sector Pension Inst	Q15.	Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?	Noted.

			EAPSPI believes that all assumptions should be based on a stable and long-term perspective.	
130.	European Federation for Retirement Provision (EFRP)	Q15.	<p>Q15. Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>In more general terms, the EFRP regrets that provisions in the consultation document that do not come from the Solvency II directive have not been given sufficient consideration. A lot of new items need more in-depth research. Inflation risk is among the most important considerations for IORPs and the EFRP is surprised that they are not examined in greater depth by the QIS. More time will be necessary in order to set up an appropriate inflation risk module.</p> <p>The EFRP feels that wages and prices are national matters and that it would be inappropriate to prescribe a harmonised specification for these in order to calculate the expected inflation rate and wage growth. In some Member States, the IORP itself can adopt assumptions for these rates, or national or sectoral level mechanisms determine them.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module added</p>

			<p>The EFRP also believes that the 1% salary increase above inflation is not appropriate for all IORPs. A reference to real salary increases would be more realistic and appropriate.</p> <p>An alternative could be to take break-even inflations implied by financial markets into consideration in an inflation risk module. These will lead to valuations consistent with financial markets, instead of the present proposal to use a valuation method inconsistent with financial market prices. Since there is no market for wage inflation, we would suggest using break-even inflation for price inflation plus x%, where the Member State and social partners should decide on the relevant factor x for the IORPs, thereby recognising that expectations on wages can be quite disperse across Europe.</p> <p>Furthermore EIOPA should recognise that prices and wages are a national matter, possibly differing substantially between countries, and sometimes between companies or sectors. The EFRP would like to see a study to examine if this really can be applied across Europe without risking market distortions. The market for inflation-linked products is limited in Europe, which implies that there is the risk of market distortions.</p>	
131.	Federation of the Dutch Pension Funds	Q15.	<p>We suggest to use break-even inflations implied by financial markets. These will lead to valuations consistent with financial markets (we were surprised to see EIOPA proposing valuation methods inconsistent with financial market prices). If and when financial markets discount for rising/declining inflations (they</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-</p>

		<p>will be more responsive to actual events), these will be reflected in the HBS. If assumptions are applied that deviate from the market value (inflation or UFR) and the HBS is evaluated based on market valuation, this may all in all lead to discrepancies. If some balance sheet items are inconsistent with market prices, other items have to be inconsistent as well in order to compensate for that (by definition the balance sheet has to balance). Since there is no market for wage inflation, we would suggest using break-even inflation for price inflation plus x% (where the value of x is decided per country). Furthermore, EIOPA has to recognise that prices and wages are a national matter, potentially deviating substantially between countries, but even between companies/sectors. Since the wages in the company/sector are most relevant, IORPs should be allowed to deviate from local assumptions in case their situation/exposure is different.</p> <p>However, we understand that using break-even inflation may lead to valuation issues as there is not always a liquid market available for all inflation rates, as is the case for Dutch price inflation.</p> <p>As an alternative we would suggest EIOPA to prescribe a procedure (like the Smith-Wilson used for the yield curve) for break-even inflation rates by using an UFR, as is also used for interest rates.</p> <p>If this is not feasible within the given time frame, we would suggest using any last liquid point per currency as the break-even inflation rate for higher maturities.</p>	<p>implied rates.</p> <p>Extrapolation will be done using Smith-Wilson procedure</p> <p>IORPs may apply real wage rate in line with their situation</p>
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			<p>More research on the impact of using these assumptions will be needed before the first QIS (and also later QISs). A study should be done to establish whether this really can be applied across Europe, without running the risk of market distortions. The market for inflation-linked products is at present limited in Europe.</p> <p>In our opinion. EIOPA has not enough time to make the necessary calculations given the short timeframe. We think that inflation (both price and wage) is an important aspect that influences the financial healthiness of an IORP and therefore sufficient time for calibration is required. Given the nature of the liabilities, this aspect has less impact for insurance undertakings.</p>	
132.	Financial Reporting Council – staff response	Q15.	<p>We support the use of a market consistent inflation rate in line with other economic assumptions such as the discount rate. Given that the relevant inflation factors are likely to be IORP specific we suggest that IORPs be allowed to determine the relevant inflation factors but based on relevant market data.</p> <p>If a salary growth assumption is used it should be consistent with the inflation assumption and appropriate for the IORP. However we question whether there should be any allowance for increases to salary which are not guaranteed and are dependent on future decisions of the sponsor.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>
133.	German Institute of	Q15.	Setting these two assumptions without any justification appears	Agreed.

	Pension Actuaries		<p>very arbitrary indeed! Given the variety of plan rules with respect to the degree to which benefits and thus liabilities are influenced by inflation and salary development, the assumptions as to these two parameters can be very important or not at all with respect to pension liabilities. They may significantly differ between countries and economies, with respect to salary increases, even between industries within one country. Also, depending on the economical dynamics and developments they may even change significantly their level over time. Thus IORPs themselves should be allowed to select appropriate assumptions, for instance as implied by financial markets. However, this must be consistent to the method of deriving a discount (smoothing, equilibrium rates, etc. – cf. comments on Q13). Alternatively, if more standardisation is desired, inflation and salary assumptions should be set on a country specific basis by member states' supervisory authorities.</p>	<p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>
134.	GESAMTMETALL - Federation of German employer	Q15.	<p>We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>
135.	Groupe Consultatif	Q15.	<p>Do stakeholders agree that the draft technical specifications</p>	<p>Agreed.</p>

	Actuariel Européen		<p>specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate</p> <p>and salary growth? Or should IORPs also be allowed to expected inflation</p> <p>implied by financial markets? Could you explain?</p> <p>Ideally these should not be constant but where possible set by reference to suitable market observables and/or consistent with other economic factors such as the discount yield curve applicable to the member state in question. We suggest that this should be by taking break-even inflations implied by financial markets. These will lead to valuations consistent with financial markets, a requirement that EIOPA itself asks of IORPs in HBS.3.1, HBS.3.8 and further.</p> <p>However, we understand that using break-even inflation may lead to valuation issues as there is not always a liquid market available for all inflation rates. We therefore suggest EIOPA should prescribe a procedure much like the Smith-Wilson procedure used for the interest rate curve for break-even inflation.</p> <p>For wage inflation an add-on of 1% on price inflation seems reasonable, but it seems logical that Member State specific differences can occur. We therefore suggest that this specific add-on is to be set by the national supervisor.</p>	<p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>Extrapolation will be done using Smith-Wilson procedure</p> <p>IORPs may apply real wage rate in line with their situation</p>
136.	Hundred Group of Finance	Q15.	Do stakeholders agree that the draft technical specifications	Agreed.

	Directors		<p>specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPS also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>The wording of this question is plainly faulty, but we presume we are being asked whether the assumptions of 2% and 3% for inflation and salary increases respectively are reasonable.</p> <p>The 2% inflation assumption seems very arbitrary for one of the most crucial of the financial assumptions and no justification is provided as to why this is an appropriate assumption as at 31 December 2011. We think much more thought and attention should be applied to the derivation of this assumption.</p> <p>We also think that member states (particularly those outside the Euro) should be able to set individual assumptions for an appropriate inflation assumption. For example, there are two different measures in the UK (RPI and CPI) used for pension increases and different assumptions are currently used for them.</p> <p>We do not think there should be a prescribed salary increase assumption. The actual rate of salary growth will vary considerably depending on the nature of the workforce and the industry within which the employer operates and should therefore be set on an employer-specific basis.</p>	<p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>
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137.	IBM Deutschland Pensionsfonds AG	Q15.	We believe that all assumptions should be based on long-term equilibrium values.	Noted.
138.	Institute and Faculty of Actuaries	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>We are strongly of the view that the valuation of inflation-linked pensions would not be market-consistent if IORPs were not expected to adopt assumptions consistent with market-implied inflation. Consistent with this, if there is to be an SCR, we believe that it should include a component for inflation stress (although we remain unclear what purpose the SCR would serve).</p> <p>We are also strongly of the view that salary growth should only be allowed for to the extent that salaries are guaranteed to increase and benefits are guaranteed to remain linked to them.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>Inflation risk module has been added</p>
139.	Insurance Europe	Q15.	<p>The future inflation assumption used in the calculations should be consistent with the target inflation for each currency's central bank. These assumptions cannot be the same for all member states. It should allow for the national trends in salary increases and inflation.</p> <p>Insurance Europe believes that the salary increases should reflect the expected salary increases of a company. It is also unclear whether the salary increase is already taken into account the expected inflation or is coming on top of it.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>

			<p>Furthermore, equalising the expected salary increases for the whole Eurozone does not seem to be appropriate or consistent in a prudent framework. For example in Belgium, the long term salary increase rate is similar to the expected inflation rate due to its salary indexation mechanism. It should be also clarified whether and how a career has to be included into the salary increase.</p> <p>Insurance Europe would therefore consider an adjustment for inflation implied by financial markets as reasonable.</p>	
140.	KPMG LLP (UK)	Q15.	<p>We were very surprised to see such a simplistic approach for inflation being proposed, particularly since inflation is such a significant assumption, and indeed risk, for UK defined benefit IORPs. No doubt it is because there is not an appropriate part of the insurance Solvency II documentation to copy across. It is important that there is consistency between inflation assumptions and discount rates, as it is the differences between the two which are of real significance to UK IORPs. If inflation is to be allowed for as a single flat number, then discount rates should equally be set on a simplistic basis (e.g. 4%).</p> <p>There is the further technical point that (in the UK at least) there is more than one measure of inflation (RPI and CPI), and distinction between the two should be made.</p> <p>As an extension of this, IORPs which hedge inflation exposure will not have this risk reduction explicitly recognised through the SCR, meaning that risk reduction is not incentivised.</p> <p>A further point is that no differentiation has been made in the inflation assumptions for Level A and Level B calculations. Again, we would recommend that inflation (and salary increase)</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module has been added</p>

			assumptions should be set to be consistent with discount rates.	
141.	Mercer Ltd	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>Assuming a fixed assumption for inflation and salary growth that is not related to market pricing will result (for those schemes with inflation and/or salary linked benefits) in a measure for technical provisions that is meaningless. Whilst we doubt whether it is possible to achieve 'market consistent' measures for many aspects of the holistic balance sheet, we do agree with the principle of starting with market prices for determining the assumptions to use. Although in many member states this might not be possible in relation to inflation, there is information in the UK and the Euro zone that should be taken into account.</p> <p>We recognise (and appeal to EIOPA to recognise) that market pricing is an imperfect measure in general and currently will be compromised by behaviours driven by the Euro zone crisis. However, although it is important to recognise these imperfections, it seems perverse to ignore the information entirely, particularly in an approach that is attempting to achieve 'market consistency'.</p> <p>We have a similar concern in relation to the salary growth</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module has been added</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>

			<p>assumption. The rates of salary growth likely to be experienced over the short term will vary considerably between member states but, in particular, in many industries throughout the European Community are likely to be less than inflation. No information is provided about the derivation of the 3% figure (nor the 2% inflation assumption), but a more considered approach is needed for the QIS to provide useful information.</p> <p>More generally, we do not believe it is appropriate to include a salary growth assumption for the type A liabilities, since salary growth will only necessarily be granted if the scheme remains open, which presupposes a solvency employer. However, we would agree that they should be included for the Type B calculation.</p> <p>Finally, changes in inflation expectations are a real economic risk for schemes and should have a specific risk module or, at a minimum, be incorporated in the interest rate module.</p>	
142.	National Association of Pension Funds (NAPF)	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed</p> <p>yearly percentage of respectively 2% and 3% for the expected inflation rate</p> <p>and salary growth? Or should IORPs also be allowed to expect inflation</p> <p>implied by financial markets? Could you explain?</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other</p>

			<p>The issue of salary growth, and the assumption to be adopted for it by IORPs, is a matter for trustee boards in the UK, and in setting this assumption they must have reference to the type and nature of the workforce that forms part of the scheme. It is, of course, for employers to set salaries; trustees will, therefore, have regard to employers' intentions when setting their assumptions. It seems inappropriate for the QIS exercise to determine a standard rate for the salary increase assumption.</p> <p>Inflation and interest rate risks are among the most important considerations for IORPs, and the NAPF is astonished that they are not examined in greater depth by the QIS. In fact the EIOPA draft is at its weakest and least detailed on this – one of the issues of greatest importance to UK IORPS. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent manner.</p> <p>It is also the case that UK IORPs typically apply inflationary adjustments based on two different inflation measures, RPI and CPI. It is not clear what measure of inflation the fixed 2% is targeting and it would not be appropriate to use the same assumption for CPI and RPI.</p> <p>EIOPA should also consider the potential market impact of 'standardising' expected inflation and interest rates in this way.</p>	<p>inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module has been added</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>
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			There would inevitably be consequences in terms of demand for different types of bonds and securities, and these impacts would need to be fully evaluated.	
143.	Pension Protection Fund, UK.	Q15.	Inflation can have a significant impact on IORPs' costs and we therefore believe that IORPs should be allowed to adopt expected inflation implied by financial markets, rather than using a fixed assumption of 2% pa. This would better reflect the different economic conditions across different member states. It would also be in line with generally accepted practice of using market-derived financial assumptions where possible.	Agreed.  Fixed inflation assumption has been replaced by market-implied rates.
144.	Punter Southall	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPS also be allowed to expect inflation implied by financial markets? Could you explain?</p> <p>We do not agree with the proposed fixed yearly percentage of 2% and 3% for the expected inflation rate and salary growth rate respectively.</p> <p>UK IORPs use two different inflation rates (RPI and CPI) and two separate assumptions are required for these inflation rates. If inflation rates are to be prescribed, this should be done for each member state individually, reflecting the actual circumstances applying in that country.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>

			Salary growth assumptions should reflect the actual membership of the IORP and the exact circumstances of the employer.	
145.	Railways Pension Trustee Company Limited (RPTCL)	Q15.	<p>RPTCL believes that expected inflation implied by financial markets and applicable to the duration of the liabilities of the IORP should be used. In our case, the liabilities of our IORPs are mainly inflation-linked. Therefore, the inflation rate assumed within the calculation of the technical provisions will be a key item if used alongside a risk-free interest rate. Other than by chance, using a fixed rate would not result in technical provisions being on a market consistent basis.</p> <p>Further, in our experience, the expected long-term inflation rate implied by financial markets can, and often does, fall outside of the range of 2% to 3% per annum. Therefore, in the event that a fixed yearly percentage were to be adopted, the range of acceptable values would probably need to be much wider.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p>
146.	RWE Pensionsfonds AG	Q15.	These variables should be set in a market consistent way.	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p>

149.	Tesco Plc	Q15.	<p>No. As stated in Question 3, the 2% inflation rate is arbitrary, with no clear rationale behind the figure. Inflation should be market-related. The 3% expected salary growth is also arbitrary and should instead be set on a case-by-case basis, depending on what pension fund Trustees and the company deem appropriate.</p> <p>More generally, we question whether it is possible and even wise to prescribe such figures given we are operating in an uncertain economic climate. EIOPA should take a less prescriptive approach.</p>	Noted.
150.	Towers Watson B.V.	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>The fixing of these variables is in stark contrast to the highly-detailed approach adopted in other areas of the specification in the name of achieving market consistency. It is unclear why IORPs are not required to set their inflation assumption in a market-consistent way to the extent that market information is available.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p>
151.	Towers Watson GmbH, Germany	Q15.	<p>It is apparent, that these variables were picked arbitrarily. Their fixing is in stark contrast to the intricate approach adopted in other areas of the specification in the name of achieving market</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-</p>

			<p>consistency. We would even state that doing so renders the whole regulatory construction obsolete, because the model is thereby simply rendered inconsistent.</p> <p>We strongly believe that significantly more work is required here.</p>	<p>implied rates.</p>
152.	Towers Watson UK	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth? Or should IORPs also be allowed to expected inflation implied by financial markets? Could you explain?</p> <p>The fixing of these variables is in stark contrast to the highly-detailed approach adopted in other areas of the specification in the name of achieving market consistency. We note that EIOPA is “considering including an inflation risk module” and this appears to us to be necessary if IORPs are to be required to set their inflation assumption in a market-consistent way.</p> <p>In doing so, it needs to be clear what inflation linkage is under consideration. UK IORPs typically apply inflationary adjustments based on two different inflation measures, RPI and CPI. In addition, further changes under consideration could result in a third (or more) inflation measures. The assumptions adopted should, as far as possible, be market-consistent relative to the inflation measure used. It would not be appropriate to use the same assumption for CPI and RPI.</p> <p>We are also strongly of the view that salary growth should only be allowed for to the extent that future salary-linkage is guaranteed (and cannot be limited or terminated by the IORP or</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p> <p>Inflation risk module has been added</p> <p>National supervisors will clarify inclusion of salary increases based on specific situation</p>

			sponsor).	
153.	Trades Union Congress (TUC)	Q15.	<p>The issue of salary growth, and the assumption to be adopted for it by IORPs, is a matter for trustee boards in the UK. In setting the assumptions boards must have reference to the type and nature of the workforce in question. It therefore seems inappropriate that the QIS exercise determines a standard rate for salary growth.</p> <p>Similarly, we believe that the inflation and interest rate risks should be examined in more depth by the QIS or subsequent QIS exercises, given their importance to retirement provision.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>
154.	Universities Superannuation Scheme Limited	Q15.	<p>Do stakeholders agree that the draft technical specifications specify a fixed</p> <p>yearly percentage of respectively 2% and 3% for the expected inflation rate</p> <p>and salary growth? Or should IORPs also be allowed to expect inflation</p> <p>implied by financial markets? Could you explain?</p> <p>The issue of salary growth, and the assumption to be adopted for it by IORPs, is a matter for trustee boards in the UK, and in setting this assumption they must have reference to the type and nature of the workforce that forms part of the scheme. It</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply adjustments to accommodate other inflation measures</p> <p>IORPs may apply real wage rate in line with their situation</p>

			<p>seems inappropriate for the QIS exercise to determine a standard rate for the salary increase assumption.</p> <p>Inflation and interest rate risks are among the most important considerations for IORPs, and we are surprised that they are not examined in greater depth by the QIS. In fact the EIOPA draft is at its weakest and least detailed on this – one of the issues of greatest importance to IORPS.</p> <p>EIOPA should also consider the potential market impact of ‘standardising’ expected inflation and interest rates in this way. There would inevitably be consequences in terms of demand for different types of bonds and securities, and these should be fully evaluated.</p>	
155.	UVB Vereinigung der Unternehmensverbände in Berlin	Q15.	<p>We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.</p>	<p>Agreed.</p> <p>Fixed inflation assumption has been replaced by market-implied rates.</p> <p>IORPs may apply real wage rate in line with their situation</p>
156.	vbw – Vereinigung der Bayerischen Wirtschaft e.	Q15.	<p>We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the</p>	<p>Agreed.</p> <p>Fixed inflation</p>

	V.		expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.	assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation
157.	Vereinigung der hessischen Unternehmervverbände (Vh	Q15.	We do not agree with the draft technical specifications for a fixed yearly percentage of respectively 2% and 3% for the expected inflation rate and salary growth. It is quite remarkable that the core principle of market valuation is not used for one of the most important risks for a pension fund.	Agreed.  Fixed inflation assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation
158.	Zusatzversorgungskasse des Baugewerbes AG	Q15.	No, ZVK-Bau does not believe that inflation rate and salary increases are dealt with correctly in the proposed model. For the pension schemes that ZVK-Bau operate inflation rate and salary increases do not influence benefits and their adjustments. But there are other calculations where a fixed or floating inflation rate and salary development might be of interest: As mentioned above IORPs contribution rate - which is a percentage of gross wage- is part of the bargaining package and therefore in a way dependent from inflation and salary increases. Because benefits do not have to react neither to inflation nor to salary increases every inflation basis point and every salary increase helps ZVK-Bau to comply with its	Noted.  Fixed inflation assumption has been replaced by market-implied rates.  IORPs may apply real wage rate in line with their situation

			liabilities. If taken into account correctly inflation and salary increases form part of the security system of ZVK-Bau.	
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